India-ASEAN Relations

.Why in news?

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

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How did the partnership evolve?

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

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- Despite multifrontal engagements, the prime focus continues to be the furtherance of economic and commercial ties.
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- Evidently, ASEAN is India’s 4th largest trading partner, and India is the 7th largest trading partner of the bloc.
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- The economic integration process further strengthened after the creation of the ASEAN-India free trade area in 2010.
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- This was followed by the implementation of the India-ASEAN agreement on services and investment in 2015.
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- Given all these, the **bilateral trade and investment ties are still way below the true potential.**
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- Besides, the balance of trade has always been in favour of ASEAN member countries.
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- 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.
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- Also, the investment share is skewed, with 99% of the total FDI inflows from the region coming from Singapore alone.
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- This is because of the Comprehensive Economic Cooperation Agreement with Singapore.
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- The other major Southeast Asian economies including Malaysia, Indonesia, and Thailand account for less than 1%.
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What are the roadblocks?

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- SMEs are a vital aspect of both Indian as well as the ASEAN economy, contributing nearly 45% to the Indian manufacturing.
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- However, a range of factors hamper FDI inflows and SMEs collaboration between India and ASEAN countries.
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- Some of them include:
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i. challenges in establishing a supply chain
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ii. poor infrastructure
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iii. bad maritime and air connectivity
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iv. bureaucratic costs involved in complex tax and duty structures
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v. licensing, and other business activities
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- **Complexity** - All the countries of the region have differing levels of socio-economic development, posing a challenge.
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- The Indian SMEs have to adjust with a new set of supply-chain strategies to each country's varying regulatory requirements.
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- **Technology** - The SME sector in India is hugely dependent on foreign technologies because of lack of in-house R&D.
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- **China** - The CLVT countries (Cambodia, Laos, Vietnam and Thailand) are emerging as manufacturing hotspots for China.
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- China is increasingly outsourcing its production to countries along the Belt and Road project, mainly ASEAN members.
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- Given the low levels of manufacturing, these countries stand to gain from industrial capacity cooperation with China.
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- The dominant Chinese footprint in the region makes the competition even tougher for Indian SMEs.
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What should India focus on?

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- **Technological upgrading** is pivotal to enabling the SMEs to be more competitive in the global market.
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- India's **logistics sector and the supply-chain environment** should be developed to a world-class level.
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- The ongoing projects and arrangements for infrastructure development and connectivity should be carried on without delays.
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- They include:\n
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i. India-Myanmar-Thailand Trilateral Highway
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ii. Bangladesh, Bhutan, India and Nepal (BBIN) Motor Vehicles Agreement, 2016
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iii. Kaladan Multimodal Transit Transport Project (linking the Kolkata with Myanmar’s Sittwe port)
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- LDCs of ASEAN bloc, like Laos, Vietnam, Cambodia and Myanmar, are the beneficiaries of generalised system of preferences in US and EU.
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- Indian manufacturers setting up business units here are bound to get the benefits while exporting to the US and EU markets.
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- India must use the upcoming commemorative summit to project it as a lucrative investment destination for the ASEAN countries.
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Source: Financial Express

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