ECONOMY

It Will Take More Than a Parade to Strengthen Trade and Economic Ties with ASEAN

Connectivity, institutional linkages and free movement of labour – these are all areas India has struggled with over the last decade.

ASEAN leaders Republic Day. Credit: PTI

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A cross-section of the ASEAN leaders watching the Republic Day parade with Prime Minister Narendra Modi and President Ram Nath Kovind. Credit: PTI

Despite the Modi government earning global and domestic brownie points by improving India's position on the World Bank's 'Ease of Doing Business' rankings, very little is happening in the way of scaling up exports to neighbouring Asia.

One major reason, among many, is a lack of agreement over product standardisation between India and most other countries in Asia. Exporters many times complain they are not able to sell as their products do not meet the required quality standards required in a foreign land. At a time when the world economy is doing well, it is ironic that India's trade deficit has widened to $14.88 billion in December 2017 from $10.55 billion a year earlier. Sluggish export growth can not only dent government's effort to 'Make-in-India', but can seriously undermine its ability to create more jobs.

Now it appears India has found a true friend in ASEAN. The day of reckoning from ‘Look East’ to ‘Act East’ has finally arrived, with India hosting 10 leaders from ASEAN region as chief guests for the 2018 Republic Day parade. If we hope to grab 5% share of global trade by 2020, it is important that we nurture this friendship with the ASEAN region.

Although focus of this India-ASEAN meeting was on maritime cooperation and security, trade and investment flows are important. Between 2008 and 2016, India’s trade with ASEAN region has increased faster than two of its two largest trading partners, namely, European Union and the United States. Two way trade between India and ASEAN has moved from $65.1 billion in 2015-2016 to $71.6 billion 2016-2017. However, this figure is meagre in comparison to China’s $452.3 billion in 2016.

When it comes to competing in the world economy, the Chinese dragon always win hands down against the Indian elephant. India’s share in world trade is stuck at around 1.8% since 2011, whereas that for China this figure is close to 12%. For India catch up at the halfway mark by 2020, the export figure need to grow in excess of 30% annually. A hard task at hand.

Interestingly, in spite of all non-tariff measures and higher tariffs directed against Chinese exports, the country’s trade with ASEAN has flourished. Over the last 15 years, China has emerged as first or second largest trading partner with almost all Southeast Asian countries. Where China succeeded and India failed is about building connectivity and institutional linkages with various ASEAN countries. China, which shifted parts of its production base to ASEAN region were not only able to source raw materials/inputs at a cheaper price but were also able to dodge non-tariff barriers directed against their exports.

For India, a strong relation with ASEAN is important for five reasons. First, as cost of production is lower in Laos, Cambodia, and Myanmar, it means that Indian firms can gain significantly by investing in these countries. Second, investing in these regions meant a bigger market for Indian firms. ASEAN region has a combined GDP of $2.7 trillion. Third, Indian firms can evade protectionist measures (read, Trump factor) targeted against their exports if they start exporting from ASEAN region. Fourth, investing in these regions will also ease out some of India’s energy requirements, enabling the Indian to access cheaper foreign energy (oil and power) and minerals from Cambodia, Myanmar and Vietnam. Fifth, and more importantly, participating in the South-east Asian production network will allow India to increase its manufacturing base besides creating jobs for its young population.

Each year around 12 million people enter the labour force in India while roughly 2 million jobs are created. Economically well-off ASEAN nations such as Brunei, Singapore, Malaysia, and Thailand, can gain from making use of India's cheap labour. In recent times, labour costs in China have increased substantially, and India can take advantage of that. Thanks to strengthening of yuan, Chinese labour costs are now only 4% cheaper than those in the U.S.

Average wages in China's manufacturing sector has surpassed that of Brazil and Mexico, and are fast catching up with Greece and Portugal. This is in contrast to India, where manufacturing wages have flattened since 2010 at just $1 an hour.

There are also other potentially complementary elements. Nuclear power in India is yet to be fully tapped. Other energy sources, particularly hydroelectric power generation on the Mekong river, can be of use to the booming and fuel hungry economy of India. Similarly, electric power generations in India are mainly coal-based. Indonesia possesses the largest and most easily accessible coal reserve in the ASEAN region. Malaysia sits on huge natural gas reserve. Vietnam is a major exporter of oil. All this can help India. India can gain by becoming a partner for the proposed Trans-ASEAN pipeline project. This project aims to develop a regional gas grid by 2020, by linking the existing and planned gas pipeline networks of the ASEAN member states.

Indian companies too can realign their resources to tap the region's potential.

Companies such as Larsen and Toubro, Adani Port, and NTPC Limited can invest in Myanmar with money and technical expertise to build infrastructure, such as building container dock and coastal ships, power stations, and cement factories. Indian telecommunication companies such as Bharti Airtel and Reliance, have the expertise for laying down optical fiber cables and telecommunication network, something in need for countries, such as Myanmar, Cambodia and Laos. Indonesia offers huge investment opportunity for Indian oil exploration and construction firms, such as Oil and Natural Gas Corporation Limited.

Indian companies already have many joint ventures with their Indonesian and Singaporean counterparts. For example, Bajaj Auto has a joint venture for the assembly and production of three and two wheelers. Tata Motors has a manufacturing facility in Thailand. In fact, the Tata group, with 16 companies, has designated Singapore as its regional hub. Other Indian companies with significant investment in Indonesia include Aditya Birla Group (Indo-Bharat Rayon), S.P. Lohia Group (Indo-Rama Synthetics), Ispat Group (Ispat-Indo), and Essar Group (ESSAR Dhananjaya).

A robust Indio-ASEAN relation will also opens up opportunity for people to people contact. India has an abundant supply of skilled professionals across industries and sectors and movement of natural persons such as IT professionals and seafarers. The rise of e-commerce, especially in economies like Malaysia and Thailand presents an opportunity for Indian IT firms. Similarly, India offer a great place for medical tourism and education, something that ASEAN counterpart can make use of.

However, to keep this India ASEAN relation on track it is worthwhile to fully recognise the obstacles and bugs.

There are many export items – of interest both to India and ASEAN – which are in negative lists, with trade not permitted. A conscious decision is needed to reduce number of non-tariff barriers such as imposition of anti-dumping measures and phytosanitary sanctions. Similarly, to facilitate labour movement between India and ASEAN it is essential to have institutions for mutual recognition of standards in India-ASEAN bilateral services agreements. For example, in spite of India having a services trade agreement with Japan, Indian nurses, architects, and even yoga professionals are yet to get market entry.

Likewise, agreements with South Korea that allow Indian engineers, consultants and other professionals to go and work in South Korea are often met with limited success, with recognition of Indian engineering colleges remaining a sore issue.

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