

## INDIA-ASEAN TRADE OPPORTUNITIES UNDER ACT EAST POLICY AND INDIA'S NORTH EAST

**Dr. Basanta Kalita***Associate Professor, Dept. of Economics, Tezpur College, Tezpur, Assam, India***ABSTRACT**DOI URL: <https://doi.org/10.36713/epra3047>

*The Act East Policy of the Govt. of India was started in 1991 to strengthen falling economic situation. The basic idea was to link Indian economy with flourishing economies of the South East Asian nations to enhance India's economic fortunes. The north eastern region being the gateway of the whole engagement is supposed to play the most crucial role in delivering the anticipated result. The paper has tried to study India-ASEAN trade opportunities in terms of merchandise trade vis-s-vis the opportunities for the NER. It is found that the merchandise trade has increased many folds between India and ASEAN specially in the post AIFTA period. The main items of India's export to and import from the ASEAN reveal that the NER can be a strong player in the business activities as it has tremendous potential in producing those commodities due to the natural advantages it possesses. However, the main challenge is the lack of infrastructural facilities in the area which are absolutely necessary for international business and investment.*

**KEY WORDS:** ASEAN, Act East Policy, NER, AIFTA**INTRODUCTION**

The Act East Policy of the Govt. of India is the renaming of the old policy of Look East Policy (LEP) which was started in 1991. The LEP was introduced in the backdrop of falling and tumbling Indian economy and the flourishing economies of the South East Asian countries. It was a comprehensive effort of India to break away from the four decades of economic regulation and govt. control over the economic activities. In the early 1990's, Indian economy had gone through the worst phase of uncertainty and slowdown since independence. With falling industrial and agricultural production and export, the country had experienced a threat to its very existence as an economic power. On the other hand, our neighbour China was marching strongly to become the economic super power with much higher GDP growth compared to India. The South Asian countries like Singapore, Indonesia, Malaysia, Philippines, Myanmar, Vietnam, Thailand, Laos, etc. had also register a very high rate of economic growth and had able to prove as the fast growing economies of Asia (Panda, 2017). It seemed India was lagging behind and was in verge of knocking out from the competition. India's effort to increase economic co-operation at the regional level through South Asian Association for Regional Co-operation (SAARC) failed to live up to expectations. But at the same time Association of South East Asian Nations

(ASEAN), an umbrella of South East Asian countries for economic integration had proved to be a big success.

Under this scenario, India had no other way but look forward to connect her economy with her eastern neighbours. The govt. of India's initiatives to connect Indian economy with the future powers of Asia culminated in the form of Look East Policy as declared in 1991. The centre point of the LEP was the North East of the country which shares the international boundary with Myanmar and can reach out to other ASEAN members via road connectivity. The Asian Highway 01 can connect India with Myanmar, Vietnam, Thailand, Laos and not to mention China. It is clearly the most encouraging way of getting access to those markets. Though the name has been changed but the objectives and purpose of the policy have remained the same. Look east Policy of India has three dimension approaches towards the South East Asian countries which are (Ahmed, 2019):

- To enhanced interaction with the South East Countries pertaining to trade and investment, Science and technology, tourism etc.
- It aims were to ensure political links and understanding with the South East Asian Countries through ASEAN.
- To strengthen the defence links with these countries.

## OBJECTIVES OF THE STUDY

The objective of the paper is to study India's engagement with the 10 nation group of ASEAN economies specially in the light of North Eastern Region and Act East Policy of India.

## DATA SOURCE AND METHODOLOGY

The study is completely based on secondary data collected from various secondary sources. The analysis of the materials is done on the basis simple statistical tools like graph, ratio, CAGR, table, etc. The paper has considered only the India's merchandise trading or trade in terms of goods with the south Asian countries.

## Act East Policy and North East Region (NER)

The North East Region of India is situated far away in the north east of the country and is connected with the main land through a narrow stretch of 22 km width known as Siliguri Corridor. Given the geographical proximity of the region with the east Asian countries, north east has been regarded as the focal point of the AEP. The region shares India's boundary with China, Nepal, Bhutan, Myanmar and Bangladesh comprising around 4500 km long international boundary. Myanmar alone shares 1643 km international border with the north eastern states like Arunachal Pradesh, Manipur, Mizoram and Nagaland and considered as the main gateway to south east Asia from north east India.

North East India shares cultural and social history with some of the ASEAN countries and enjoys exclusive advantages in people diplomacy (Kalita, 2018). Myanmar is the only Southeast Asian country that shares a common land border with India through Moreh of Manipur. Since Myanmar joined the Association of Southeast Asian Nations (ASEAN) in 1997, India has been encouraged to use its Northeast to open out to Southeast Asia via land. The ambitious road and rail link that India seeks to develop to connect to Southeast Asia passes through Myanmar. Having developed the Moreh-Tamu-Kalewa-Kalemyo highway, India is now seeking to start work on the Trilateral Highway project involving India, Thailand and Myanmar that will connect Moreh on India-Myanmar border with Mae Sot on the Myanmar-Thailand border via Bagan. Once this is possible, India can look forward to accessing other ASEAN countries through Myanmar by road (Bhaumik, 2014).

India will have to use the Northeast as a land bridge to Southeast Asia—to end the isolation of this region to boost future growth of Indian economy. It makes definite logistic and economic sense to try using the Northeast to open out to south-west China, which unlike Southeast Asia, is landlocked, but decision making levels in India are still divided on issues like reopening the World War II vintage Stillwell Road. This introduces an element of uncertainty on whether or not India is prepared to take some risks that go with allowing the 'Look East' to blossom to its full potential by using the Northeastern 'land bridge'. Security concerns, especially related to Chinese military presence and China's growing influence in Myanmar, tend to hamper India's march ahead with its initiatives for the 'Look East' policy. It is apparent that 'Look East through Northeast' makes sense for India only if the initiative seeks to include China in the equation. This is where the BCIM (Bangladesh-China-India-Myanmar) initiative becomes highly important; this initiative has now made some progress, with India setting up a joint study group to figure out how to take the process forward. Chinese Prime Minister Li Keqiang's 2013 visit to India led to an agreement between the two

neighbours to 'explore' the possibility of developing a BCIM economic corridor. During Indian Prime Minister Manmohan Singh's visit to Beijing in October 2013, a decision was made to initiate a 'joint study' that will explore ways by which the initiative could be taken forward. The joint study group set up by India has since been involved in organising stakeholder conferences to strategise on the BCIM economic corridor. During one such conference in Calcutta on 2nd May, 2014, former Indian ambassador to Bangladesh Rajeev Mitter, who heads the study group, remarked: "From India's perspective, the BCIM Economic Corridor will mark another important dimension of India's Look East policy, which has been energetically pursued since the 1990s". The primary aim has been to enhance trade, investment and connectivity between India and countries to its immediate East extending up to Southeast Asia, East Asia, and the Pacific (Bhaumik, 2014).

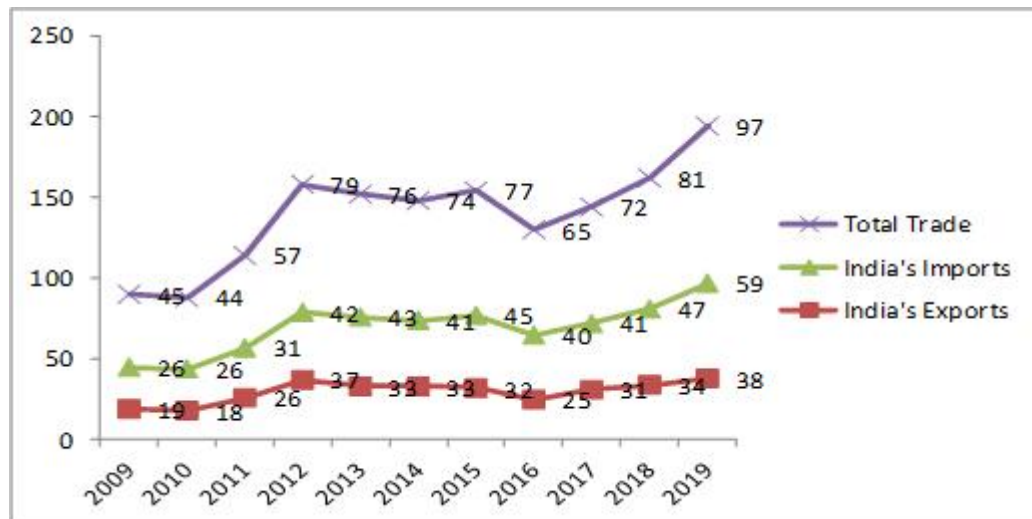
## DISCUSSIONS AND FINDINGS

India and the ASEAN countries together constitute around 1.9 billion population and a combined economy of USD 5.7 trillion which is a substantial part of world economy. India had signed the Free Trade Area agreement in goods with ASEAN in 2009 besides the signing of Comprehensive Economic Co-operation Agreement (CECA) with various ASEAN countries. The initial free trade agreement of ASEAN India Free Trade Agreement (AIFTA) was signed in 2003 and the final agreement was signed in 2009. The Indian exporters will enjoy the following benefits under AIFTA (PHD Chamber, 2019)-

- Preferential tariff access for Indian products throughout 10 member countries.
- The elimination of tariffs of importing countries would result reduction in price of products throughout ASEAN.
- Encouraging higher market completion
- Help Indian products gain access to a regional market that incorporates many substantial advantages.
- ASEAN consumers benefit from cheaper prices of goods given lower tariffs of raw materials used by region's producers.
- Some of the ASEAN's processing factories enjoy cheaper imported raw materials from India in the face of tariff elimination, cutting their production costs.
- ASEAN countries integrated into a single market which is an important point because the market is stronger and larger with a high population.
- The export and investment sectors generate higher potential in the long term.
- India's export complementarities are higher with the ASEAN countries compared to other regions.

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 merchandise exports to ASEAN economies have increased from around USD 19 billion in FY2009 to around USD 38 billion in FY2019 while India's merchandise imports from ASEAN economies have increased from around USD 26 billion to around USD 59 billion during the same period.

Chart 1: ASEAN-India Foreign Trade Growth during 2009-2019



Source: PHD Research Bureau, PHDCCI, 2019

It has been seen that India's trade with ASEAN has substantially increased during the post AIFTA period compared to the pre AIFTA period. India's total exports and imports with ASEAN have increased from USD 3 and USD 4 respectively in 2001 to USD 23 and USD 30 in 2010 (Table 1). The volumes of exports and imports have further increased to USD 36 and USD 57 respectively in 2018. However, the

Compound Annual Growth Rate (CAGR) of both exports and imports has declined from 22 percent during 2001-2009 to 5 percent for exports and 8 percent for imports in the period 2010 – 2018. But the CAGR of trade deficit was reduced from 22% in pre AIFTA to 13 percent in post AIFTA time. It reflects that India has able to increase the exports to those nations during the post AIFTA period.

Table 1: India-ASEAN Trade in the post & pre AIFTA (In USD Billion)

Year	Post AIFTA			Year	Pre AIFTA		
	Export to ASEAN	Import from ASEAN	Trade Deficit		Export to ASEAN	Import from ASEAN	Trade Deficit
2010	23	30	-7	2001	3	4	-1
2011	35	40	-5	2002	5	5	0
2012	32	43	-11	2003	5	7	-2
2013	38	43	-5	2004	8	9	-1
2014	31	44	-13	2005	10	11	-1
2015	26	42	-16	2006	12	16	-4
2016	26	38	-12	2007	14	21	-7
2017	35	45	-10	2008	19	27	-8
2018	36	57	-21	2009	18	24	-6
CAGR	5%	8%	13%	CAGR	22%	22%	22%

Source: PHD Research Bureau, PHDCCI, 2019

India's exports throughout the period from 2010 to 2018 have been showing some kind of up and down with the ASEAN as well as with the World (Table 2). The trend for exports growth is not smooth as in certain years India has experienced negative growth rate. But India's export growth rate with the ASEAN has been always more than that of the world. The CAGR which is 5 percent (2010-18) is also greater in case of ASEAN compared to that of the world at 4 percent for the same period. India's top 20 export items to ASEAN in 2009 comprised of Mineral fuels, mineral oils (17.6%)

followed by Ships, boats and floating structures (12.9%), Electrical machinery and equipment (8.3%), Natural or cultured pearls, precious or semi-precious stones (6.4%), among others (PHD Chamber, 2019). On the other hand, India's exports to ASEAN in 2018 comprised of Mineral fuels, mineral oils (26.2%) followed by Meat and edible meat offal (7.4%), Machinery, mechanical appliances (7%), Organic chemicals (5.9%), Fish (4.4%), Vehicles other than railway (4.2%), among others.

**Table 2: India's export to ASEAN vis-à-vis to the World (In USD Billion)**

Year	India's Export to ASEAN	Growth (%)	India's Export to World	Growth (%)
2010	23	28	220	25
2011	34	50	301	37
2012	32	-6	290	-4
2013	38	17	337	16
2014	31	-17	318	-6
2015	26	-16	264	-17
2016	26	0	260	-2
2017	35	34	296	14
2018	36	2	323	9
CAGR (2010-2018)	5%		4%	
CAGR (2001-2009)	22%		17%	

Source: PHD Research Bureau, PHDCCI, 2019

In the imports front also, there has been a reasonable and consistent growth of India's imports from the ASEAN except in few years when we have seen a negative growth rate (Table 3). The rate of growth is also greater for the ASEAN nations than the growth rate with the world. It may be concluded that India has been increasingly engaging with her south Asian neighbours in terms of trade specially during the post AFTA. The top 20 import items from ASEAN economies by India in 2009 were Mineral fuels, mineral oils (24.9%) followed by

Animal or vegetable fats and oils (15.4%), Electrical machinery and equipment (11.5%), Machinery, mechanical appliances (9.8%), Organic chemicals (4.6%), Edible vegetables (3.6%), among others (PHD Chamber, 2019). Again in 2018, India's top 20 imports items were Mineral fuels, mineral oils (20.7%) followed by Electrical machinery and equipment (15.1%), Animal or vegetable fats (9.8%), Machinery, mechanical appliances (9%), Organic chemicals (5.8%), Plastics and articles thereof (4.4%), among others.

**Table 3: India's import from ASEAN vis-à-vis to the World (In USD Billion)**

Year	India's import from ASEAN	Growth (%)	India's import from World	Growth (%)
2010	30	24	350	32
2011	40	36	462	32
2012	43	6	489	6
2013	42	-1	466	-5
2014	44	5	459	-1
2015	42	-7	391	-15
2016	38	-8	357	-9
2017	45	19	444	24
2018	57	26	508	14
CAGR (2010-2018)	8%		4%	
CAGR (2001-2009)	22%		20%	

Source: PHD Research Bureau, PHDCCI, 2019

If one looks in to the foreign direct investments (FDI) by these countries in India during the last 20 years (2000-19) then one will find that Singapore alone had provided the major share of FDI to India which was 97 percent (Table 4). The other nine economies combined FDI in India during that period

was mere 3 percent which is negligible. Therefore, the picture is not encouraging in terms of inviting FDI from the ASEAN countries by India. If we leave Singapore than there is nothing to be expected from the rest of the ASEAN countries.

**Table 4: Share of ASEAN in India's FDI equity inflows 2000-2019 (In USD Billion)**

Country	Cumulative FDI inflow	Percent in India's total inflow
Singapore	88337	97
Malaysia	986	1
Indonesia	629	0.7
Thailand	474	0.5
Philippines	312	0.4
Cambodia	48	0.2
Myanmar	10	0.01
Vietnam	5	0.01
Brunei	0.4	-
Lao PDR	NA	-
Total	90802	100%

Source: PHD Research Bureau, PHDCCI, 2019

Keeping the north eastern region in mind and looking at the exports and imports of India and the ASEAN, it is found that India can seek a huge potential in her business deliberations with those nations. The north east which is rich in natural resources specially in the field of forest resources, mineral and fossil fuel, agriculture, meat and fish production and industrial products based on forest resources can tremendously exploit the great opportunities brought by the Govt. of India initiated Act East Policy. However, in light of the poor industrial development and lagging behind in the infrastructural facilities it is highly apprehended that the region might not be able to rip in the benefits which will be created by the Act East Policy in coming years. But being the gateway to the south east Asian countries north east region will still play a crucial role in the success of Act East Policy. The region provides the only land connectivity to the ASEAN with India and this is the single most importance in whole aspect. All logistics, connectivity and transportation facilities have to be brought up in this area by the govt. of India and it will bring new investment, technology, infrastructure, employment opportunities and business ideas.

However, the region has to take care of many difficulties and challenges which are inherent to it in nature. For example, the region is very poor in infrastructure specially road connectivity. Since barring Assam all the other states of NER hilly terrain hence connectivity in terms of roadways has been always a problem. Again, the issue of insurgency is also hampering the economic development of the region for a long time. No investor is interested to come and invest in such an environment of fear and uncertainty (Ahmed, 2019). Another issue that may have limited the success and gains from the trade with ASEAN is the size of the economies of the different member nations. The economies of some of the members like Brunei, Lao PDR, Vietnam and Cambodia are small which may not have the potentialities to be at par with India which is sixth largest economy of the world.

However, there are huge opportunities to increase India's exports to ASEAN economies in view of the inherent advantages of the Indian industry in certain product categories. 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 (Panda, 2017). Going forward, strong economic linkages and complementarities between India and ASEAN economies will lead to greater economic integration to the mutual benefit of all (Ibid).

## CONCLUSION

Undoubtedly, India's engagement with ASEAN has brought strategic gains to India in terms of greater economic integration in global value chains (ASSOCHAM, 2016). Further, in order to realize greater economic gains supply chains should be developed with a focus towards intra-industry trade. In this regard, the India-ASEAN FTA provides increased scope for integration of supply chains in the machinery, electrical and electronics sectors and transport, among others which could be further supplemented by services trade and investments. However, improved facilitation of business to business connections, information flow, harmonization and mutual recognition of standards as well as removal of non-tariff barriers is crucial for realizing the full trade potential and product integration between India and ASEAN. The NER can become the largest transit point of international trade in the country due to the very geographical existence. It will also create an opportunities for the entire NE to be focal point of the service sector because of the movement of goods and human resource through the NER corridor.

## REFERENCES

1. Ahmed, Zulafqar (2019), "India's Act East Policy and North East India: A Critical Review", International Journal of Research in Social Sciences, vol. 9, issue 9, September, 2019.
2. ASSOCHAM India (2016), India ASEAN Trade and Investment Relations: Opportunities and Challenges, July issue, New Delhi.
3. Bhaumik, S. (2014), "Look East through North East: Challenges and Prospects for India", Observer Research Foundation, New Delhi.
4. Brahma, A. (September 2018). "India's Act East Policy: the North-East States". International Journal of Innovative Research in Science,, Vol. 7, Issue 9, p-10025.
5. Kalita, S. (2018). "India's act east policy and north-east: Prospects and challenges". Vol, 3 issue, 1 ISSN, 2455-4030, International Journal of Advanced Research and Development.
6. Panda, Bhagirathi (2017), "Act East Policy, India's North East and Thailand: Issues in Economic Integration", paper presented at 13<sup>th</sup> International Conference on Globalized Thailand? Connectivity, Conflict and Conundrums of Thai Studies, 15-18 July, Chiang Mai, Thailand.
7. PHD Chamber (2019), "India's Trade and Investment Opportunities with ASEAN Economies", PHD Research Bureau, PHD Chamber of Commerce and Industry, November, New Delhi