

# Unravelling the Dynamics of India-ASEAN Economic Relations



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## **Unraveling the Dynamics of India-ASEAN Economic Relations**

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# CONTENTS

	Page No.
List of Tables	v
List of Charts	vii
List of Boxes	vii
Executive Summary	1
1. ASEAN: An Economic Overview	6
2. ASEAN: Trends in Foreign Trade and Investment	13
3. India and ASEAN: Trade and Investment Relations	25
4. Aligning India's Exports with ASEAN	35
5. Challenges in India-ASEAN Bilateral Trade	42
6. India Exim Bank – Supporting Developmental Endeavours in ASEAN	54
7. Way Forward and Recommendations	57

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## LIST OF TABLES

Table No.	Title	Page No.
1.1	ASEAN– Select Macroeconomic Indicators	7
1.2	Country-wise Key Macroeconomic Select Indicators for ASEAN	8
1.3	Major Industries in ASEAN	11
2.1	International Trade of ASEAN Countries – Products and Partners, 2022	16
2.2	Foreign Direct Investment Inflows to ASEAN	20
2.3	Foreign Direct Investment Outflows from ASEAN	22
2.4	Sources of Outward Investments from ASEAN Countries (2013-2022)	23
3.1	ASEAN-India Tariff Reduction/Elimination Framework	26
3.2	India’s Bilateral Trade with ASEAN Countries (US\$ million)	28
3.3	India’s Trade with ASEAN Countries – Product List (2022)	30
3.4	India’s Bilateral FDI Flows with ASEAN Countries (US\$ million)	32
3.5	India’s Bilateral Investments with ASEAN Countries - Major Sectors (2013-2022)	34
4.1	List of Top 10 Product Champions from India to ASEAN (HS 6-digit level)	38
4.2	List of Top 10 Winners in Declining Sectors from India to ASEAN (HS 6-digit level)	39
4.3	List of Top 10 Underachievers from India to ASEAN (HS 6-digit level)	40
4.4	Broad Industry Classification of Identified Product Champions from India to ASEAN (HS 2-digit level)	41
5.1	Effectively Applied Tariff on Vietnam’s Imports from India	45
5.2	Effectively Applied Tariff on Vietnam’s Imports from China	46
5.3	Effectively Applied Tariff on Vietnam’s Imports from South Korea	47
5.4	Effectively Applied Tariff on Thailand’s Imports from India	47
5.5	Effectively Applied Tariff on Thailand’s Imports from China	48
5.6	Effectively Applied Tariff on Thailand’s Imports from South Korea	49
5.7	Effectively Applied Tariff on Malaysia’s Imports from India	49
5.8	Effectively Applied Tariff on Malaysia’s Imports from China	50
5.9	Effectively Applied Tariff on Malaysia’s Imports from South Korea	51
5.10	Effectively Applied Tariff on Indonesia’s Imports from India	51
5.11	Effectively Applied Tariff on Indonesia’s Imports from China	52
5.12	Effectively Applied Tariff on Indonesia’s Imports from South Korea	53
6.1	India Exim Bank’s Operative Lines of Credit in ASEAN Countries	55





## LIST OF CHARTS

Chart No.	Title	Page No.
2.1	International Trade of ASEAN (US\$ trillion)	15
2.2	Foreign Direct Investment Inflow Recipient Countries in ASEAN (2013-2022)	21
2.3	Major Sectors for FDI Inflows in ASEAN Countries (2013-2022)	21
2.4	Major FDI Sources to ASEAN (US\$ billion) from 2013 to 2022	22
2.5	Major Investment Destinations of ASEAN (2013-2022)	23
2.6	Major Sectors Attracting FDI from ASEAN (2013-2022)	24
3.1	India's Bilateral Trade with ASEAN (US\$ billion)	28
3.2	India's Major Export Commodities to ASEAN, 2022 (% Share)	29
3.3	India's Major Import Commodities from ASEAN, 2022 (% Share)	29
3.4	India's FDI Inflows from ASEAN – Major Sectors	33
3.5	India's FDI Outflows to ASEAN – Major Sectors	33
4.1	Product Identification for Exports from India to ASEAN	37

## LIST OF BOXES

Box No.	Title	Page No.
1	Regional Comprehensive Economic Partnership Agreement	14



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# Executive Summary

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## ASEAN: An Economic Overview

The Association of Southeast Asian Nations (ASEAN), with its strategic location, and abundant natural resources, is among the major regional blocs in the world. Established in 1967, the founding members of the bloc include Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam joined ASEAN on January 7, 1984, followed by Vietnam on July 28, 1995, Lao PDR and Myanmar on July 23, 1997, and Cambodia on April 30, 1999, thereby forming the ten-member bloc of ASEAN.

The ASEAN member states established the ASEAN Free Trade Area (AFTA) on January 28, 1992. AFTA aims to lower intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme of AFTA, thereby integrating the ASEAN economies into a single production base and creating a regional market. The average intra-ASEAN tariffs have thus, been virtually eliminated across the 10 ASEAN member states, from 3.1% in 2005 to just 0.2% in 2017.

As a regional bloc, ASEAN has witnessed robust growth during the last five decades. Growing by 5.7% in 2023 to reach an estimated total GDP of US\$ 3.9 trillion in 2023 – more than six times the level in 1999 (US\$ 607.3 billion), when it first achieved the full membership of ASEAN-10. In 2023, the combined estimated GDP of ASEAN, as a single economy, placed the region as the fifth largest in the world and third largest in Asia, after China and Japan. Further, according to the World Bank's World Development Indicators, of the 10 ASEAN economies, two are classified as high income (Brunei and Singapore), three are upper middle income (Indonesia, Malaysia and Thailand), and the remaining five countries are classified as lower middle-income countries.

## ASEAN: Trends in Foreign Trade and Investment

The establishment of ASEAN Free Trade Area (AFTA) has resulted in an increase in both value and volume of intra-regional trade flows. Among the member economies, Singapore and Vietnam have the highest trade openness at 212.2% and 178.5% of their respective GDPs in 2022. The Regional Comprehensive Economic Partnership (RCEP) Agreement, the world's largest trading bloc, was signed in November 2020 by the ten ASEAN countries and five ASEAN dialogue partners — Australia, China, Japan, New Zealand and South Korea. This bloc accounts for around 30% of global GDP and global trade.

Over the past decade, ASEAN's total trade witnessed an overall upward trend, increasing by a substantial 55.4% to US\$ 3.9 trillion in 2022 from US\$ 2.5 trillion in 2013. In the aftermath of the COVID-19 pandemic, total trade exhibited a consistent and robust upward trajectory. The bloc's exports increased from US\$ 1.3 trillion in 2013 to reach US\$ 2.1 trillion in 2022, while imports saw a moderate increase from US\$ 1.3 trillion in

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2013 to US\$ 1.9 trillion 2022. Among the ASEAN countries, Singapore accounts for the largest volume of trade making up 25.1% of total regional trade. Further, the share of intra-ASEAN trade in ASEAN's total trade has seen moderation over the past decade with the share of intra-ASEAN exports in ASEAN's total exports falling from 26.5% in 2013 to 21.7% in 2022.

ASEAN countries pursue favourable national investment policies to develop an attractive environment for FDI. According to Financial Times' fDi Markets, envisaged FDI inflows to ASEAN have witnessed an overall increasing trend, from US\$ 95.5 billion in 2013 to US\$ 111.4 billion in 2022, thus logging a CAGR of 31.9%, despite some slowdowns in between, especially during the COVID-19 pandemic. Vietnam was the top envisaged FDI inflow destination in the ASEAN region, receiving 24.4% of total envisaged FDI inflow to ASEAN with China being a major investor in the region. Total outward envisaged investment by ASEAN amounted to US\$ 456.4 billion during 2013-2022 with Singapore being the largest outward directed investment source.

## India and ASEAN: Trade and Investment Relations

The significance of India-ASEAN relationship is multi-faceted and encompasses political, economic, strategic, and cultural aspects, with major focus given to the region through India's "Look East" policy. In 2003, India signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN.

Over the last decade, total trade between India and ASEAN increased from US\$ 80.2 billion in 2013 to US\$ 133.4 billion in 2022, at a CAGR of 5.2%. These bilateral trade flows accounted for 11.3% of India's total global trade in the year. However, the post-FTA era shows growing merchandise trade favouring ASEAN over India. The trade deficit has widened from US\$ 4.4 billion in 2013 to US\$ 45.3 billion in 2022.

In 2022, in terms of India's country wise exports to the region, Singapore was the top export destination with a share of almost 27% of India's total exports to ASEAN, while Indonesia was the top import source with a share of 32.1% of the total imports from ASEAN. In the same year, Indonesia was India's largest trading partner in the region with total trade amounting to US\$ 38.5 billion.

Bilateral investment flows between India and ASEAN countries have also been on the rise in recent years. Among the ASEAN economies, Singapore continues to be the major investor in India with a share of almost 98% of India's total FDI inflows from ASEAN from 1996 to 2023. In terms of FDI outflows too, Singapore is India's major destination accounting for a share of 93.2% of India's total FDI outflows to ASEAN. During 2013-2022, in terms of sector-wise investments, ASEAN's FDI inflows to India has primarily been in the real estate sector with a share of 26.1% while India's FDI outflows was directed towards the coal, oil and gas sector with a share of 27.2% of India's total FDI outflows to ASEAN.

## Aligning India's Exports with ASEAN

Using the revealed comparative advantage, India's exports to ASEAN have been classified into 4 groups based on its competitiveness.

**Product Champions:** These products have maximum potential, as ASEAN's import demand for these products has shown robust AAGR, while India's exports of these products to ASEAN are also competitive. Out of the 606 items identified at the HS 6-digit level, 279 items fell into the category of the product champions. The combined exports of these items from India to ASEAN were US\$ 17.7 billion in 2022, representing 40.2% of

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India's total exports to ASEAN in the same year. Major product champions include diamonds, worked, but not mounted or set; frozen, boneless meat of bovine animals and articles of jewellery and parts, among others.

**Winners in Declining Sectors:** These refer to products for which India has competitiveness, even though ASEAN's import AAGR for these products has been declining. The total number of products in this category is 142 items, with India's exports of these items amounting to US\$ 10.5 billion, holding a share of 23.8% of India's exports to ASEAN in 2022. Some top products in this category include medium oils and preparations; aluminium, not alloyed and light-vessels, among others.

**Underachievers:** India does not have competitiveness in these products although their import demand has grown in ASEAN significantly over the period under consideration. This category has 119 items of India's exports amounting to US\$ 2.2 billion, accounting for 4.9% of India's total exports to ASEAN in 2022. Major underachievers include oilcake and other solid residues; machines for the reception, conversion and transmission or regeneration of voice and appliances for pipes, boiler shells, among others.

**Lagging in Declining Sectors:** Includes products India does not have competitiveness in, and these sectors have also registered weak import demand in ASEAN during the period under consideration. The high number of India's export items under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future to ASEAN.

Further, the analysis suggests strengthening the existing products in the category of product champions in order to harness the full potential of these products which are already showing robust growth in the ASEAN market, whilst India's exports also hold a comparative advantage in them.

## Challenges in India-ASEAN Bilateral Trade

In 2009, India signed a FTA with ASEAN popularly known as AIFTA, which came into effect in 2010. Subsequent to the implementation of AIFTA, India's imports from ASEAN saw a staggering growth of 201.7%. India's overall trade deficit with ASEAN increased from a marginal US\$ 6.6 billion in 2010 to US\$ 45.3 billion in 2022, logging an increase of more than six times. Thus, the need to keep in check the increasing trade deficit between India and ASEAN has been acknowledged as a major challenge in India-ASEAN trade relations.

Other than the imbalances in tariff reduction offered by India and ASEAN in the AIFTA, other major point of contention has been the Rules of Origin (ROO) regulations as well as the increasing number of Non-Tariff Measures (NTMs) imposed on exports of agriculture products, textiles, base metals and electrical and machinery equipment thus, leading to rise in asymmetries in trade.

Further, for a detailed understanding of the difference in the tariff rates imposed by the major importers of ASEAN, a comparative analysis is undertaken of their respective Effectively Applied Tariff (AHS) rates corresponding to the FTA in force with India, along with that signed with China and South Korea, the bloc's major import sources. Through a detailed examination of disaggregated comparative tariff data, a notable contrast has been identified in the constrained market entry conditions stemming from lower tariff concessions faced by India, in comparison to those encountered by China and South Korea. This trend is evident in the context of India's exports to countries such as Vietnam, Indonesia, Thailand, and Malaysia, ASEAN's largest importing countries.

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## India Exim Bank - Supporting Developmental Endeavours in ASEAN

The Export-Import Bank of India (India Exim Bank) was set up under an Act of Parliament in 1981 for providing financial assistance to exporters and importers. The Bank functions as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade. In line with the Government of India's focus, ASEAN has been a focus region for India Exim Bank, and thus a critical component of its strategy to promote and support two-way trade and investment flows. India Exim Bank's commitment towards building relationships with the ASEAN region is reflected in the various activities and programmes, which Exim Bank has set in place. India Exim Bank plays a critical role and is committed towards supporting GOI's initiatives in promoting strategic partnerships with countries in different regions and especially those in ASEAN.

**Lines of Credit (LOCs):** To promote bilateral and regional commercial relations, India Exim Bank extends Lines of Credit (LOCs) to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support export of eligible goods on deferred payment terms. As on March 31, 2024, operative LOCs covering ASEAN countries extended by India Exim Bank, at the behest of the Government of India amounted to US\$ 844.6 million.

**Supporting Project Exports:** The Bank has also financed several Indian project exporters in the region in various sectors including, among others, water resources development, power projects, irrigation, gas pipeline and hydropower projects in countries including Malaysia, Singapore, Indonesia, Thailand, Myanmar and Vietnam. Further, India Exim Bank has also been engaging in consultancy assignments in association with select institutions in the Southeast Asia region. As on March 31, 2024, India Exim Bank has sanctioned ₹ 129 billion to over 92 Indian companies for setting up ventures in Indonesia, Malaysia, Myanmar, Singapore, Thailand, Philippines and Vietnam in diversified sectors.

**Asian Exim Banks Forum:** Furthermore, the Asian Exim Banks Forum set up in 1996 is another point in case and a positive initiative in mutually rewarding association of India and ASEAN countries. This forum aims to enhance economic cooperation and forge stronger linkages among its member institutions, thereby fostering a long-term relationship within the Asian Exim Banks community, comprising member institutions from countries such as Australia, China, India, Indonesia, Japan, South Korea, Malaysia, Philippines, Thailand, and Vietnam.


**Representative Offices:** India Exim Bank also has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in various Southeast Asian countries and identify areas of cooperation.

## Way Forward and Recommendations

In recent times, the dynamic landscape of international relations has witnessed a pronounced surge in the strategic engagement between India and the member nations of ASEAN. The year 2022 marked 30 years of such ASEAN-India relations and was designated as ASEAN-India Friendship Year in October 2021. To maintain and further improve such strong bilateral relations, this study addresses challenges and provides recommendations for the same. Accordingly, a major issue that needs to be addressed includes the mounting

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trade deficit that has widened more than 10 times from US\$ 4.4 billion in 2013 to US\$ 45.3 billion in 2022. Major focus areas to strengthen India-ASEAN ties include cooperation in improving regional connectivity and cooperation also in Digital Public Infrastructure (DPI); and strengthening maritime security. Integration into regional value chains and developing linkages with investment promotion agencies, chambers of commerce and MSMEs across regions are other potential areas for building stronger relations between India and ASEAN.



# ASEAN: An Economic Overview

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## Introduction

The Association of Southeast Asian Nations (ASEAN), with its strategic location, and abundant natural resources, is among the major regional blocs in the world. Established on August 8, 1967, with the signing of the ASEAN Declaration (Bangkok Declaration), the founding fathers of the bloc include Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam joined ASEAN on January 7, 1984, followed by Vietnam on July 28, 1995, Lao PDR and Myanmar on July 23, 1997, and Cambodia on April 30, 1999, thereby forming the ten-member bloc of ASEAN.

ASEAN was proclaimed a Community through a Declaration signed by ASEAN Leaders at their 27<sup>th</sup> Summit in Kuala Lumpur on November 22, 2015. This declaration charts the path for ASEAN Community building over the next ten years. It is a forward-looking roadmap that articulates ASEAN's goals and aspirations to realise further consolidation, integration and stronger cohesiveness as a community. The economic and geopolitical significance of ASEAN countries is substantial and continuously expanding.

ASEAN member states established the ASEAN Free Trade Area (AFTA) on January 28, 1992. AFTA aims to lower intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme of AFTA, thereby integrating the ASEAN economies into a single production base and creating a regional market.

Over years, the AFTA has made significant progress in lowering overall tariff and non-tariff barriers in the region. The CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) countries, in particular, have begun attracting greater attention of the global economic community, given their huge potential for future development, along with more recent global developments including the USA-China trade dispute and pandemic associated supply chain disruptions.

The average intra-ASEAN tariffs have been virtually eliminated across the 10 ASEAN Member states, from 3.1% in 2005 to just 0.2% in 2017. The average Intra-ASEAN tariffs for Cambodia, Lao PDR, Myanmar and Vietnam (CLMV), for which flexibilities were availed, significantly fell from 5.3% in 2005 to 0.5% in 2017, bringing them closer to the average rate for Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand (ASEAN-6) at 0.03%<sup>1</sup>.

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<sup>1</sup> <https://www.aseanstats.org/wp-content/uploads/2018/10/Tariff-Liberalisation.pdf>



## Economy of ASEAN

Over the past 56 years since its formation, ASEAN has made significant progress both economically and socially, with deepening intra-ASEAN cooperation and narrowing of the developmental gap within and across the ASEAN region. At the same time, the region comprises countries of different sizes and scales.

According to the World Bank's World Development Indicators, of the 10 ASEAN economies, two are classified as high income (Brunei and Singapore), three are upper middle income (Indonesia, Malaysia and Thailand), and the remaining five countries are classified as lower middle-income countries. Tourism, trade and international remittances are the three major drivers of economic growth in ASEAN economies. Accordingly, ASEAN economies have a favourable current account balance.

The ASEAN, as a bloc has witnessed robust growth during the last five decades, reaching an estimated total GDP of US\$ 3.9 trillion in 2023 – more than six times the level in 1999 (US\$ 607.3 billion), when it first achieved the full membership of ASEAN-10. In 2023, the combined estimated GDP of ASEAN, as a single economy, placed the region as the fifth largest in the world and third largest in Asia, after China and Japan. The GDP of ASEAN is estimated to have grown by 5.7% in 2023, an increase from 3.4% in the previous year (**Table 1.1**). The standard of living improved considerably in the ASEAN region, driven by rapid economic growth, with nominal GDP per capita averaging US\$ 5,419.1 in 2023 for the ten ASEAN member countries, as compared to an average nominal GDP per capita of US\$ 1,135 in 1999.

**Table 1.1: ASEAN– Select Macroeconomic Indicators**


Indicators	2018	2019	2020	2021	2022	2023 <sup>e</sup>	2024 <sup>p</sup>	2025 <sup>p</sup>
GDP, current prices (US\$ billion)	3,059.4	3,242.2	3,094.4	3,379.1	3,625.7	3,862.1	4,160.1	4,487.0
Real GDP growth (% change)	5.4	5.3	4.7	-3.2	3.4	5.7	-	-
GDP per capita current prices (US\$)	4,370.0	4,626.9	4,992.1	4,704.8	5,081.3	5,419.1	-	-
Population (US\$ million)	647.5	654.6	661.1	666.2	672.1	678.0	683.8	689.4
Current account balance (US\$ billion)	54.5	85.4	110.5	59.8	73.2	74.4	80.8	82.8

Note: <sup>e</sup> estimate and <sup>p</sup> projection

Source: IMF WEO October 2023, ASEAN Secretariat

There exists a significant divergence in GDP levels among the ASEAN countries (**Table 1.2**). This economic variance within the bloc reflects the diverse development trajectories and economic structures that exist in the region. On one end of the spectrum, countries like Singapore and Brunei boast high GDP per capita, advanced industrial sectors, and well-developed financial services. In contrast, countries such as Cambodia Myanmar and Laos exhibit relatively lower GDP figures, primarily driven by agriculture and labour-intensive industries.

This disparity in GDP is a result of varying factors, including historical legacies, government policies, access to resources, and international trade dynamics. It underscores the multifaceted nature of the ASEAN community and highlights the challenges and opportunities in promoting economic cooperation and integration within



the region. Addressing this economic gap while harnessing the collective strength of ASEAN member states remains a key objective for the organization as it seeks to foster equitable and sustainable development across Southeast Asia. A noticeable discrepancy in average consumer prices exists among the ASEAN countries. This divergence in the pace at which consumer prices rise reflects the unique economic conditions and policies within the region.

Some ASEAN nations, like Myanmar and Laos, have experienced relatively high inflation rates due to factors such as rapid economic growth, increasing consumer demand, and supply-side constraints. On the other hand, countries like Singapore and Brunei have maintained lower inflation levels over the years, often associated with their advanced and stable economies.

This variance in inflation is influenced by a combination of domestic factors, including fiscal policies, central bank actions, and resource availability, as well as external factors like global commodity prices and exchange rate fluctuations. Managing inflation disparities is a complex challenge for the ASEAN community, as it requires careful coordination and cooperation to ensure price stability while supporting economic growth. Finding a balance in addressing these disparities is essential for promoting economic integration and financial stability within the region.

Table 1.2: Country-wise Key Macroeconomic Select Indicators for ASEAN

Country	GDP, current prices (US\$ billion)			Real GDP growth (% change)			Inflation (% , avg)			GDP per capita current prices (US\$)			Population (US\$ million)			Current account balance (% of GDP)		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Brunei	16.7	15.2	15.8	-1.6	-0.8	3.5	3.7	1.7	1.5	37,851.0	34,383.5	35,813.1	0.4	0.4	0.4	19.6	10.6	11.6
Cambodia	28.8	30.9	33.2	5.2	5.6	6.1	5.3	2.0	3.0	1,801.9	1,915.6	2,037.0	16.0	16.2	16.3	-27.3	-11.0	-8.0
Indonesia	1318.8	1417.4	1542.4	5.3	5.0	5.0	4.2	3.6	2.5	4,798.1	5,108.9	5,509.1	274.9	277.4	280.0	1.0	-0.3	-0.6
Lao PDR	15.3	14.2	14.1	2.3	4.0	4.0	23.0	28.1	9.0	2,046.9	1,878.7	1,833.9	7.5	7.6	7.7	-6.0	-2.6	-6.1
Malaysia	407.0	430.9	465.5	8.7	4.0	4.3	3.4	2.9	2.7	12,465.6	13,034.1	13,913.2	32.7	33.1	33.5	3.1	2.7	2.8
Myanmar	66.2	74.9	79.3	2.0	2.6	2.6	16.2	14.2	7.8	1,227.7	1,381.1	1,454.3	53.9	54.2	54.5	-4.3	-1.6	-1.5
Philippines	404.3	435.7	475.9	7.6	5.3	5.9	5.8	5.8	3.2	3,623.6	3,859.2	4,169.0	111.6	112.9	114.2	-4.5	-3.0	-2.6
Singapore	466.8	497.3	521.0	3.6	1.0	2.1	6.1	5.5	3.5	82,807.7	87,884.2	91,728.0	5.6	5.7	5.7	19.3	16.6	15.2
Thailand	495.4	512.2	543.2	2.6	2.7	3.2	6.1	1.5	1.6	7,069.6	7,298.0	7,731.3	70.1	70.2	70.3	-3.0	-0.2	1.9
Vietnam	406.5	433.4	469.7	8.0	4.7	5.8	3.2	3.4	3.4	4,086.5	4,316.3	4,636.4	99.5	100.4	101.3	-0.3	0.2	0.7

Source: IMF WEO October 2023

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## Major Industries in ASEAN

The ASEAN region is home to a diverse range of industries (**Table 1.3**), with each member country having its own unique economic strengths and specialties.

Manufacturing is a key industry in ASEAN, with countries like Thailand, Vietnam, and Malaysia known for their strong manufacturing sectors. They produce a wide range of goods, including electronics, automobiles, machinery, and consumer products. Countries like Singapore, Malaysia, and the Philippines are known for their sophisticated electronics and technology manufacturing. Singapore, in particular, is a hub for technology and innovation.

Agriculture remains a significant industry in many ASEAN countries, with countries like Indonesia, Thailand, and Vietnam being major producers of agricultural products such as rice, rubber, palm oil, and seafood. The ASEAN region is a popular tourist destination, and tourism plays a vital role in the economies of Thailand, Malaysia, Vietnam, and Cambodia. The region provides a diverse array of cultural, natural, and historical points of interest.

A number of ASEAN countries are rich in natural resources, such as oil, gas, coal, and minerals. This sector is crucial for countries like Indonesia, Malaysia, and Brunei, which are major exporters of energy resources.

Singapore is a global financial center, and it hosts numerous international banks and financial institutions. Malaysia is also a prominent financial hub in the region. The automotive industry is significant in Thailand and Indonesia, with several major car manufacturers having production facilities in these countries. Countries like Vietnam and Cambodia are known for their textile and apparel manufacturing, supplying products to global markets.

These industries vary in terms of their prominence and contributions to the economies of different ASEAN member states, reflecting the region's diversity and economic dynamics. ASEAN's economic landscape continues to evolve, with regional cooperation and integration playing a crucial role in shaping its future economic growth and development.

**Table 1.3: Major Industries in ASEAN**

Country	Major Industries
Brunei	Petroleum, petroleum refining, liquefied natural gas, construction, agriculture, aquaculture, and transportation
Cambodia	Tourism, garments, construction, rice milling, fishing, wood and wood products, rubber, cement, gem mining and textiles
Indonesia	Petroleum and natural gas, textiles, automotive, electrical appliances, apparel, footwear, mining, cement, medical instruments and appliances, handicrafts, chemical fertilizers, plywood, rubber, processed food, jewellery and tourism
Lao PDR	Mining (copper, tin, gold, gypsum), timber, electric power, agricultural processing, rubber, construction, garments, cement, tourism
Malaysia	Rubber and oil palm processing and manufacturing, petroleum and natural gas, light manufacturing, pharmaceuticals, medical technology, electronics and semiconductors, logging and timber processing, and agriculture processing
Myanmar	Agricultural processing, wood and wood products, copper, tin, tungsten, iron, cement, construction, pharmaceuticals, fertilizer, oil and natural gas, garments, jade and gems
Philippines	Semiconductors and electronics assembly, business process outsourcing, food and beverage manufacturing, construction, electric/gas/water supply, chemical products, radio/television/communications equipment and apparatus, petroleum and fuel, textile and garments, non-metallic minerals, basic metal industries and transport equipment
Singapore	Electronics, chemicals, financial services, oil drilling equipment, petroleum refining, biomedical products, scientific instruments, telecommunication equipment, processed food and beverages, ship repair and offshore platform construction and entrepot trade
Thailand	Tourism, textiles and garments, agricultural processing, rubber, sugar, rice, fishing, beverages, tobacco, cement, light manufacturing (jewellery and electric appliances), computers and parts, integrated circuits, furniture, plastics, automobiles and automotive parts, agricultural machinery, air conditioning and refrigeration, ceramics, aluminium, chemical, glass, granite and marble, leather, machinery and metal work, petrochemical, petroleum refining, pharmaceuticals, printing, pulp and paper, tungsten and tin
Vietnam	Food processing, garments, shoes, machine-building, mining, coal, steel, cement, chemical fertilizer, glass, tires, oil and electronics

Source: Central Intelligence Agency (CIA)

## Strategic Significance of ASEAN

Since its inception in 1967, ASEAN has contributed enormously to regional stability and prosperity in Asia. It is one of the fastest growing regions in the world, and its economic and geopolitical importance have been expanding continuously.

The region has transformed into a global manufacturing hub thereby emerging as a prominent player in Global Value Chains (GVCs). The overall expansion of global and regional value chains (GVCs and RVCs) in Southeast Asia has given the region substantial economic benefits with the extent of integration varying

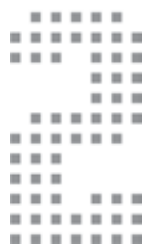
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across ASEAN member states: backward GVC participation is highest in Vietnam and Cambodia. According to Asian Development Bank (ADB), individual members countries of ASEAN have participation rates higher than the average GVC participation rate for the Asia and Pacific.

The strategic significance of the regional bloc also lies in its geographic location as a portal between the dynamic regions of Asia-Pacific and Indian Ocean. ASEAN's view of considering these regions not as contiguous territorial spaces but as a closely integrated and interconnected region, with itself playing a central and strategic role, has resulted in the initiative namely, ASEAN Outlook on the Indo-Pacific<sup>2</sup>. Based on the underlying principle of ASEAN Centrality, this initiative promotes cooperation within the region in areas like economic, maritime, connectivity and UN Sustainable Development Goals 2030, among others, through ASEAN-led mechanisms, such as the East Asia Summit (EAS).

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<sup>2</sup> ASEAN Outlook on the Indo-Pacific –[https://asean.org/wp-content/uploads/2019/06/ASEAN-Outlook-on-the-Indo-Pacific-FINAL\\_22062019.pdf](https://asean.org/wp-content/uploads/2019/06/ASEAN-Outlook-on-the-Indo-Pacific-FINAL_22062019.pdf)



## ASEAN: Trends in Foreign Trade and Investment

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The ASEAN as a regional grouping, is a combination of ten heterogeneous economies having vast difference in geographical size, economic development, trade and investment. International trade has gained significance and has been growing rapidly in the region with the establishment of ASEAN Free Trade Area (AFTA), which has also resulted in an increase in both value and volume of intra-regional trade flows.

The importance of international trade as a growth facilitator has been recognized by ASEAN countries and is evident from their growth performance in recent years. Despite this, ASEAN economies are at varying stages of development, with few of the member countries depending heavily on natural resources and energy exports, while others are among the most dynamic trading nations globally. Among these economies, Singapore and Vietnam have the highest trade openness at 212.2% and 178.5% of their respective GDPs in 2022. On the other hand, Indonesia and Myanmar show the lowest trade to GDP ratios at 40.2% and 54.5% of their respective GDPs. While Vietnam is a major participant in the electronics global value chain, Singapore has one of the most diverse semiconductor industries in the Asia-Pacific and is a major global trading hub.

ASEAN economies are integrated into Asian value chains at different stages, with the trade patterns being heavily influenced by the various bilateral and multilateral trade agreements formed in the region. ASEAN has entered into Free Trade Agreements (FTAs) with several Asian economies, including China, South Korea and India, among others. The FTAs have played a pivotal role in the surging trade and FDI inflows from the partner countries.

The Regional Comprehensive Economic Partnership (RCEP) Agreement, a major trade promoting initiative in recent years, was signed in November 2020 by the ten ASEAN countries and five ASEAN dialogue partners — Australia, China, Japan, New Zealand and South Korea. The RCEP is the world's biggest trading bloc, accounting for around 30.0% of global GDP and global trade.

### Box 1: Regional Comprehensive Economic Partnership Agreement

Introduced during the 19<sup>th</sup> ASEAN Summit, the Regional Comprehensive Economic Partnership (RCEP) Agreement is a free trade agreement (FTA) between ten ASEAN member countries and five FTA partners (Australia, China, Japan, South Korea and New Zealand). The RCEP negotiations were formally launched in November 2012, at the 21<sup>st</sup> ASEAN Summit in Cambodia, with the objective of achieving a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among the ASEAN member countries and ASEAN's FTA partners. The RCEP negotiation includes: trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, small and medium enterprises (SMEs) and other issues.

The RCEP Agreement is expected to have immense potential to deliver on new economic opportunities including job creation that are much needed in today's world of uncertainty and expressed shared commitment to work collectively and in a cooperative manner, to progress the negotiations in an accelerated way, and achieve a modern, comprehensive, high-quality and mutually beneficial agreement that addresses and balances the aspirations and sensitivities of participating countries. The RCEP Agreement is expected to have the potential of delivering significant business opportunities in the East Asia region, given the fact that the participating countries account for 48 percent of the world's population, contributing about 30 percent of global GDP and exports. As per a study by the Peterson Institute for International Economics (June 2020), the RCEP is expected to add about US\$ 186 billion to the world economy and 0.2 percent to its members' GDP. The United Nations Conference on Trade and Development (UNCTAD) has estimated that RCEP would result in boosting exports of members by over 10.0 percent by 2025.

Though India was party to the initial negotiations, India has decided to abstain from joining the RCEP Agreement during the 35<sup>th</sup> ASEAN Summit in Bangkok in 2019, due to various concerns that may be detrimental to Indian manufacturers. Its decision was mainly to safeguard the interests of sectors such as agriculture and dairy which may be affected by a surge in imports and to give an advantage to the country's services sector. Moreover, India has been experiencing a trade deficit with most of the RCEP participating countries. Meanwhile, member countries have endorsed that the RCEP remains open for India.

Source: RCEP Secretariat and various news sources

In 2022, ASEAN accounted for almost 8% of total global trade. Over the past decade, ASEAN's total trade witnessed an overall upward trend, increasing by a substantial 55.4% to US\$ 3.9 trillion in 2022 from US\$ 2.5 trillion in 2013. The growth, however, was interspersed with a period of a relative slowdown in 2015 and 2019 in line with the moderating global trade. In the aftermath of the COVID-19 pandemic, total trade exhibited a consistent and robust upward trajectory (**Chart 2.1**).

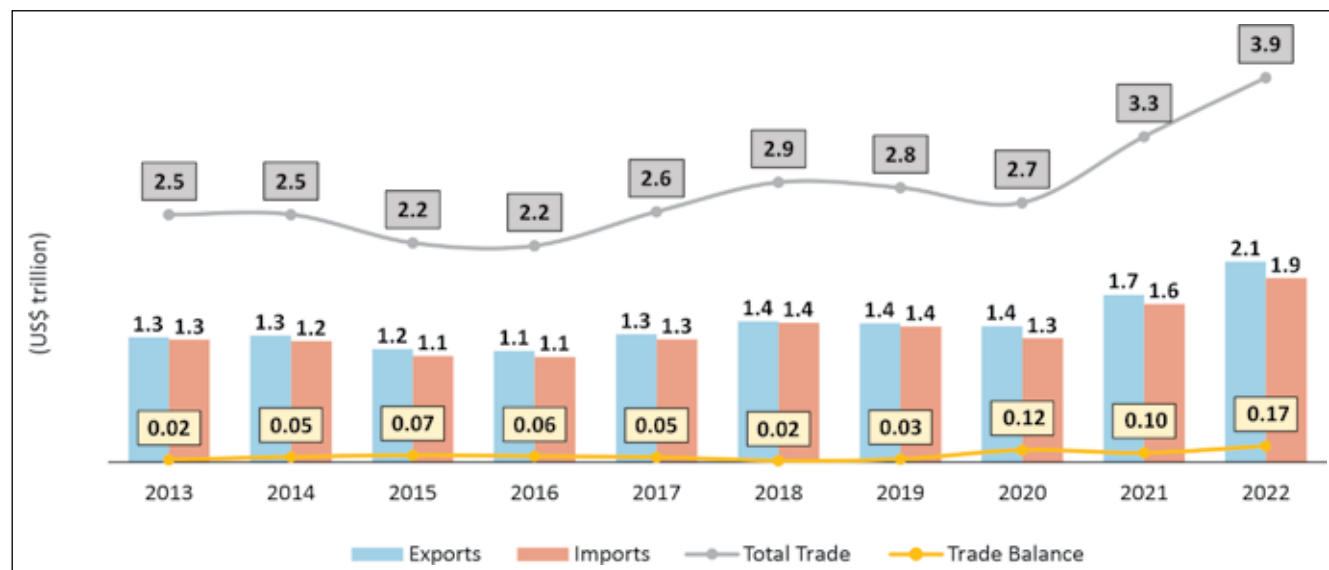
Both exports and imports followed a similar trend over time. ASEAN's exports increased from US\$ 1.3 trillion in 2013 to reach US\$ 2.1 trillion in 2022, mainly driven by exports from Singapore, Vietnam and Malaysia in 2022. Imports, on the other hand, saw moderate increase from US\$ 1.3 trillion in 2013 to US\$ 1.9 trillion 2022. Consequently, ASEAN's total trade increased from US\$ 2.5 trillion in 2013 to US\$ 3.9 trillion in 2022.

Among the ASEAN countries, Singapore accounts for the largest volume of trade (25.1% of total regional trade), followed by Vietnam (21.1%), Malaysia (16.7%), Indonesia (14.9%) and Thailand (13.2%), in 2022.



Lao PDR was seen to contribute the least to the region's trade with a share of 0.4% in the same year. Furthermore, trade balance recorded a consistent surplus over the decade, reaching its peak in 2022 at US\$ 165.4 billion for the region. Among the member countries, six of the ten countries hold a trade surplus, the highest that of Vietnam at US\$ 105.5 billion in 2022.

**Chart 2.1: International Trade of ASEAN (US\$ trillion)**



Source: ITC Trade Map and India Exim Bank Analysis

Electrical machinery and equipment was the major export commodity of the ASEAN in 2022 accounting for 29.6% of total exports of the region. It was followed by mineral fuels, oil and products of distillation (11.3%), machinery and mechanical appliances (9.8%), animal or vegetable fats and oils (3.1%), and vehicles other than railway or tramway (2.7%), among others.

Major imports of the region in the same year include electrical machinery and equipment (25.7% of total imports of the region), mineral fuels, oil and products of distillation (17.4%), machinery and mechanical appliances (10.5%), plastic and its articles (3.5%) and pearls, precious or semi-precious stones and metals (3.2%), among others.

Further, in 2022, ASEAN's major export destinations were China (15.6%), USA (15.5%), Japan (6.6%), Hong Kong (5.9%) and Malaysia (4.4%), among others. Major import sources of the region were China (24.4%), South Korea (7.5%), Japan (6.9%), USA (6.7%) and Taiwan (6.4%), among others. Country-wise top traded commodities and trading partners are given in **Table 2.1**.

Overall trade within the region, that is, intra-ASEAN trade is governed by the ASEAN Trade in Goods Agreement (ATIGA) which came into effect on May 17, 2010. ATIGA aims to achieve free flow of goods in the region, fewer trade barriers and deeper economic linkages among the member countries, lower business costs, increased trade, and a larger market and economies of scale for businesses. Through ATIGA, Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand have eliminated intra-ASEAN import duties on 99.65% of their tariff lines. Cambodia, Lao PDR, Myanmar, and Vietnam have reduced their import duties to 0-5% on 98.86% of their tariff lines.

However, the share of intra-ASEAN trade in ASEAN's total trade has moderated between 2013 and 2022. The share of intra-ASEAN exports in ASEAN's total exports saw a fall from 26.5% in 2013 to 21.7% in 2022, while the share of intra-ASEAN imports saw a relatively marginal moderation from 22.2% in 2013 to 21.9% in 2022.

**Table 2.1: International Trade of ASEAN Countries – Products and Partners, 2022**

Country	Major Exports	Major Export Destinations	Major Imports	Major Import Sources
<b>Brunei</b> Exports: US\$ 14.2 bn Imports: US\$ 9.2 bn	<ul style="list-style-type: none"> <li>Mineral fuels, mineral oils and distillation products (80.3%)</li> <li>Organic chemicals 15.6%)</li> <li>Fertilisers (1.7%)</li> <li>Machinery and mechanical appliances (0.4%)</li> <li>Aircraft, spacecraft, and parts (0.4%)</li> </ul>	<ul style="list-style-type: none"> <li>Australia (20.6%)</li> <li>Japan (17.4%)</li> <li>China (15.6%)</li> <li>Singapore (13.6%)</li> <li>Malaysia (10.1%)</li> </ul>	<ul style="list-style-type: none"> <li>Petroleum products (67.8%)</li> <li>Machinery and mechanical appliances (4.6%)</li> <li>Vehicles other than railway or tramway rolling stock (2.5%)</li> <li>Electrical machinery and equipment (2.2%)</li> <li>Aircraft, spacecraft, and parts (1.6%)</li> </ul>	<ul style="list-style-type: none"> <li>Malaysia (24.0%)</li> <li>UAE (12.2%)</li> <li>China (8.8%)</li> <li>Qatar (6.1%)</li> <li>Singapore (5.4%)</li> </ul>
<b>Cambodia</b> Exports: US\$ 20.6 bn Imports: US\$ 29.9 bn	<ul style="list-style-type: none"> <li>Articles of apparel and clothing, knitted or crocheted (30.9%)</li> <li>Articles of apparel and clothing, not knitted or crocheted (13%)</li> <li>Electrical machinery and equipment (9.7%)</li> <li>Articles of leather; saddlery; travel goods and articles (9%)</li> <li>Footwear, gaiters, and parts (8.4%)</li> </ul>	<ul style="list-style-type: none"> <li>USA (43.6%)</li> <li>China (6%)</li> <li>Japan (5.7%)</li> <li>Canada (5.4%)</li> <li>Germany (5.3%)</li> </ul>	<ul style="list-style-type: none"> <li>Natural or cultured pearls, precious or semi-precious stones (15.6%)</li> <li>Petroleum products (12.3%)</li> <li>Knitted or crocheted fabrics (9.7%)</li> <li>Vehicles other than railway or tramway (7.9%)</li> <li>Machinery and mechanical appliances (4.9%)</li> </ul>	<ul style="list-style-type: none"> <li>China (34.9%)</li> <li>Vietnam (13.2%)</li> <li>Thailand (12.8%)</li> <li>Singapore (10.8%)</li> <li>Switzerland (4.8%)</li> </ul>

Country	Major Exports	Major Export Destinations	Major Imports	Major Import Sources
<b>Indonesia</b> Exports: US\$ 292 bn Imports: US\$ 237.4 bn	<ul style="list-style-type: none"> <li>Mineral fuels, oils, and distillation products (24.3%)</li> <li>Animal or vegetable fats and oils (12%)</li> <li>Iron and steel (9.5%)</li> <li>Electrical machinery and equipment (5%)</li> <li>Vehicles other than railway or tramway (3.8%)</li> </ul>	<ul style="list-style-type: none"> <li>China (22.6%)</li> <li>USA (9.7%)</li> <li>Japan (8.5%)</li> <li>India (8%)</li> <li>Malaysia (5.3%)</li> </ul>	<ul style="list-style-type: none"> <li>Petroleum products (18.9%)</li> <li>Machinery and mechanical appliances (13.3%)</li> <li>Electrical machinery and equipment (11.1%)</li> <li>Iron and steel (5.9%)</li> <li>Plastics and articles (4.7%)</li> </ul>	<ul style="list-style-type: none"> <li>China (28.5%)</li> <li>Singapore (8.2%)</li> <li>Japan (7.2%)</li> <li>Malaysia (5.3%)</li> <li>South Korea (4.9%)</li> </ul>
<b>Lao PDR</b> Exports: US\$ 9.2 bn Imports: US\$ 7.6 bn	<ul style="list-style-type: none"> <li>Mineral fuels, oils, and distillation products (24.7%)</li> <li>Natural or cultured pearls, precious or semi-precious stones (11%)</li> <li>Ores, slag, and ash (7%)</li> <li>Fertilisers (6.3%)</li> <li>Paper and paperboard (5.4%)</li> </ul>	<ul style="list-style-type: none"> <li>Thailand (32.2%)</li> <li>China (31.4%)</li> <li>Vietnam (17.5%)</li> <li>Australia (4.9%)</li> <li>Cambodia (1.8%)</li> </ul>	<ul style="list-style-type: none"> <li>Petroleum products (15.6%)</li> <li>Machinery and mechanical appliances (11.4%)</li> <li>Electrical machinery and equipment (10.8%)</li> <li>Vehicles other than railway or tramway (7.4%)</li> <li>Natural or cultured pearls, precious or semi-precious stones (4.6%)</li> </ul>	<ul style="list-style-type: none"> <li>Thailand (46.7%)</li> <li>China (22.6%)</li> <li>Vietnam (7.9%)</li> <li>USA (4.5%)</li> <li>Switzerland (4.5%)</li> </ul>
<b>Malaysia</b> Exports: US\$ 353.1 bn Imports: US\$ 295.1 bn	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (36.3%)</li> <li>Mineral fuels, oils, and distillation products (17.2%)</li> <li>Machinery and mechanical appliances (7.8%)</li> <li>Animal or vegetable fats and oils (6.7%)</li> <li>Optical, photographic, medical, or surgical instruments (4.1%)</li> </ul>	<ul style="list-style-type: none"> <li>Singapore (15%)</li> <li>China (13.6%)</li> <li>USA (10.8%)</li> <li>Japan (6.3%)</li> <li>Hong Kong (6.2%)</li> </ul>	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (28.9%)</li> <li>Petroleum products (18.8%)</li> <li>Machinery and mechanical appliances (8.8%)</li> <li>Plastics and articles (3.4%)</li> <li>Vehicles other than railway or tramway (2.5%)</li> </ul>	<ul style="list-style-type: none"> <li>China (21.3%)</li> <li>Singapore (10.5%)</li> <li>Taiwan (8.2%)</li> <li>USA (7.8%)</li> <li>Japan (6.4%)</li> </ul>

Country	Major Exports	Major Export Destinations	Major Imports	Major Import Sources
<b>Myanmar</b> Exports: US\$ 17.1 bn Imports: US\$ 17.4 bn	<ul style="list-style-type: none"> <li>Mineral fuels, oils, and distillation products (23.5%)</li> <li>Articles of apparel and clothing accessories, not knitted or crocheted (20.9%)</li> <li>Articles of apparel and clothing accessories, knitted or crocheted (11.6%)</li> <li>Edible vegetables, roots, and tubers (9.2%)</li> <li>Cereals (8.5%)</li> </ul>	<ul style="list-style-type: none"> <li>Thailand (22.5%)</li> <li>China (21.6%)</li> <li>Japan (7.1%)</li> <li>India (5.3%)</li> <li>USA (4.5%)</li> </ul>	<ul style="list-style-type: none"> <li>Petroleum products (30%)</li> <li>Machinery and mechanical appliances (5.2%)</li> <li>Man-made staple fibres (4.5%)</li> <li>Electrical machinery and equipment (4.4%)</li> <li>Animal or vegetable fats and oils (4.1%)</li> </ul>	<ul style="list-style-type: none"> <li>China (32.1%)</li> <li>Singapore (24.8%)</li> <li>Thailand (12.4%)</li> <li>Malaysia (6.6%)</li> <li>Indonesia (6%)</li> </ul>
<b>Philippines</b> Exports: US\$ 78.9 bn Imports: US\$ 145.9 bn	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (55.2%)</li> <li>Machinery and mechanical appliances (9.2%)</li> <li>Optical, photographic, medical, or surgical instruments (3.1%)</li> <li>Copper and articles (2.9%)</li> <li>Animal or vegetable fats and oils (2.8%)</li> </ul>	<ul style="list-style-type: none"> <li>USA (15.8%)</li> <li>Japan (14.1%)</li> <li>China (13.9%)</li> <li>Hong Kong (13.3%)</li> <li>Singapore (6.2%)</li> </ul>	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (22.3%)</li> <li>Petroleum products (17.7%)</li> <li>Machinery and mechanical appliances (8.1%)</li> <li>Vehicles other than railway or tramway (6%)</li> <li>Iron and steel (3.6%)</li> </ul>	<ul style="list-style-type: none"> <li>China (20.4%)</li> <li>Indonesia (9.6%)</li> <li>Japan (9%)</li> <li>South Korea (8.7%)</li> <li>USA (6.6%)</li> </ul>

Country	Major Exports	Major Export Destinations	Major Imports	Major Import Sources
<b>Singapore</b> Exports: US\$ 515.1 bn Imports: US\$ 475.5 bn	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (35.1%)</li> <li>Machinery and mechanical appliances (14.6%)</li> <li>Mineral fuels, oils, and distillation products (12.8%)</li> <li>Optical, photographic, medical, or surgical instruments (6.9%)</li> <li>Natural or cultured pearls, precious or semi-precious stones (4.5%)</li> </ul>	<ul style="list-style-type: none"> <li>China (12.4%)</li> <li>Hong Kong (11.2%)</li> <li>Malaysia (10%)</li> <li>USA (8.8%)</li> <li>Indonesia (7.2%)</li> </ul>	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (32.6%)</li> <li>Petroleum products (22.4%)</li> <li>Machinery and mechanical appliances (13.8%)</li> <li>Natural or cultured pearls, precious or semi-precious stones (5.6%)</li> <li>Optical, photographic, medical, or surgical instruments (3.3%)</li> </ul>	<ul style="list-style-type: none"> <li>China (13.2%)</li> <li>Malaysia (12.5%)</li> <li>Taiwan (12.1%)</li> <li>USA (10.8%)</li> <li>South Korea (6.4%)</li> </ul>
<b>Thailand</b> Exports: US\$ 284.1 bn Imports: US\$ 306.3 bn	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (16%)</li> <li>Machinery and mechanical appliances (15.5%)</li> <li>Vehicles other than railway or tramway (11%)</li> <li>Rubber and articles (6.6%)</li> <li>Plastics and articles (5.3%)</li> </ul>	<ul style="list-style-type: none"> <li>USA (16.6%)</li> <li>China (12%)</li> <li>Japan (8.6%)</li> <li>Vietnam (4.6%)</li> <li>Malaysia (4.4%)</li> </ul>	<ul style="list-style-type: none"> <li>Petroleum products (20.8%)</li> <li>Electrical machinery and equipment (18.9%)</li> <li>Machinery and mechanical appliances (9.6%)</li> <li>Natural or cultured pearls, precious or semi-precious stones (5.5%)</li> <li>Iron and steel (4.8%)</li> </ul>	<ul style="list-style-type: none"> <li>China (23.3%)</li> <li>Japan (11.3%)</li> <li>USA (6%)</li> <li>UAE (5.9%)</li> <li>Malaysia (4.8%)</li> </ul>
<b>Vietnam</b> Exports: US\$ 469.5 bn Imports: US\$ 364.1 bn	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (40.9%)</li> <li>Machinery and mechanical appliances (8.7%)</li> <li>Footwear, gaiters, and parts (7.3%)</li> <li>Articles of apparel and clothing accessories, knitted or crocheted (4.6%)</li> <li>Furniture (4.5%)</li> </ul>	<ul style="list-style-type: none"> <li>USA (28.9%)</li> <li>China (18.7%)</li> <li>South Korea (5.7%)</li> <li>Japan (5.7%)</li> <li>Hong Kong (3.9%)</li> </ul>	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (34.1%)</li> <li>Machinery and mechanical appliances (8.4%)</li> <li>Plastics and articles (5.3%)</li> <li>Petroleum products (4.9%)</li> <li>Iron and steel (3.7%)</li> </ul>	<ul style="list-style-type: none"> <li>China (40.4%)</li> <li>South Korea (16.7%)</li> <li>Japan (5.2%)</li> <li>Singapore (4.7%)</li> <li>Taiwan (4%)</li> </ul>

Source: ITC Trade Map and India Exim Bank Analysis

## Investment Scenario in ASEAN

ASEAN has been recognized to be among the few regions in the world with remarkable growth in the inflows of FDIs even amidst global economic uncertainties. Despite few variabilities and fluctuations across various sectors and sub-sectors, FDI into the region as a whole continues to be buoyant, second only to China in the developing world.

ASEAN countries pursue favourable national investment policies to develop an attractive environment for FDI. Several ASEAN countries introduced investment liberalization measures in the last few years. According to the report of Investing in ASEAN 2023, the FDI revival in the region post the pandemic is being driven by rising investment from outside the region, growth in manufacturing, increasing strategic importance in global supply chains, and growing investment in infrastructure, including the digital economy<sup>3</sup>.

The investment scenario in the region has also benefitted from the increasingly popular “China Plus One” approach to global procurement wherein a growing number of foreign investors looking to mitigate their supply chain risk invest in a broader base of supply opportunities in the region. This is expected to further solidify ASEAN as the central hub for regional supply chains.

To get a meaningful understanding on the trends in the ASEAN’s overseas investments, this study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times’ fDi Markets, envisaged FDI inflows to ASEAN have witnessed an overall increasing trend, although with some slowdowns in between, with the decade high inflow of US\$ 128.8 billion recorded in 2018 (**Table 2.2**). FDI inflows got impacted severely due to the coronavirus pandemic, resulting in decreased inflow of US\$ 68.6 billion in 2020 and US\$ 66.7 billion in 2021. Despite the fluctuations, over the last decade, FDI inflows have increased from US\$ 95.5 billion in 2013 to US\$ 111.4 billion in 2022, thus logging a CAGR of 31.9%.

**Table 2.2: Foreign Direct Investment Inflows to ASEAN**

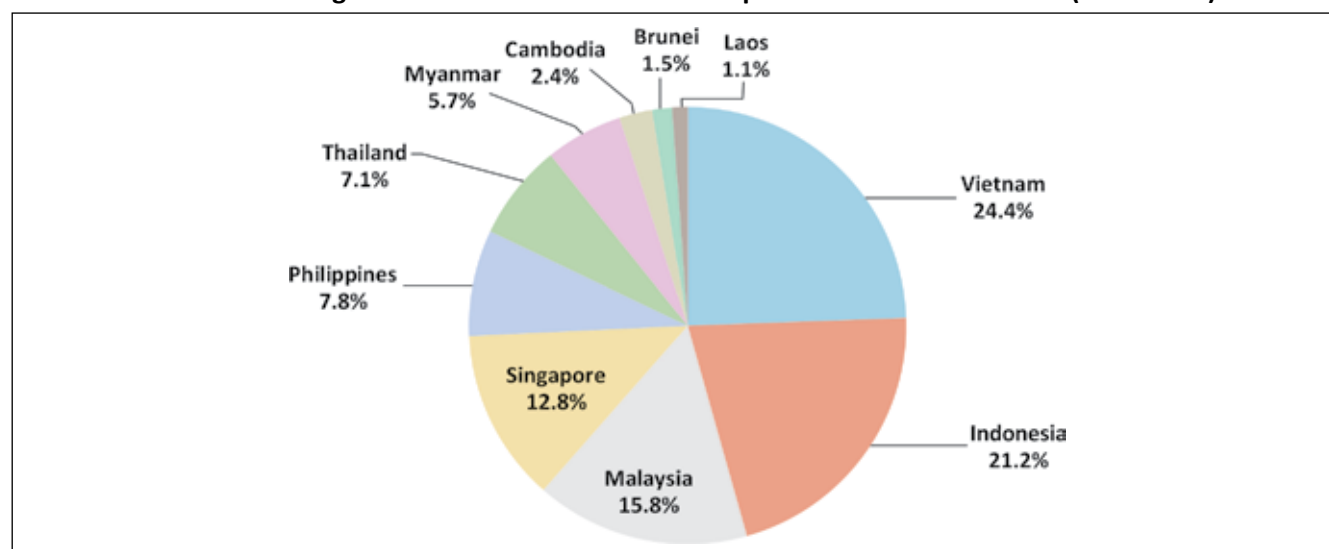
Year	Capex (US\$ billion)	Projects	Companies
2013	95.5	1,547	1,225
2014	96.0	1,643	1,332
2015	117.8	1,489	1,214
2016	124.5	1,521	1,250
2017	71.8	1,289	1,041
2018	128.8	1,644	1,238
2019	93.9	1,379	1,145
2020	68.6	761	677
2021	66.7	861	729
2022	111.4	1,099	908
<b>Total</b>	<b>975.0</b>	<b>13,233</b>	<b>8,454</b>

Source: fDi Markets online database and India Exim Bank Analysis

<sup>3</sup> Investing in ASEAN 2023 - <https://asean.org/wp-content/uploads/2022/12/investment-report-2023.pdf>

At a disaggregated level, as shown in **Chart 2.2**, Vietnam was the top envisaged FDI inflow destination in the ASEAN region, receiving 24.4% of total envisaged FDI inflow to ASEAN, followed by Indonesia (21.2%), Malaysia (15.8%), Singapore (12.8%), Philippines (7.8%) and Thailand (7.1%), among others.

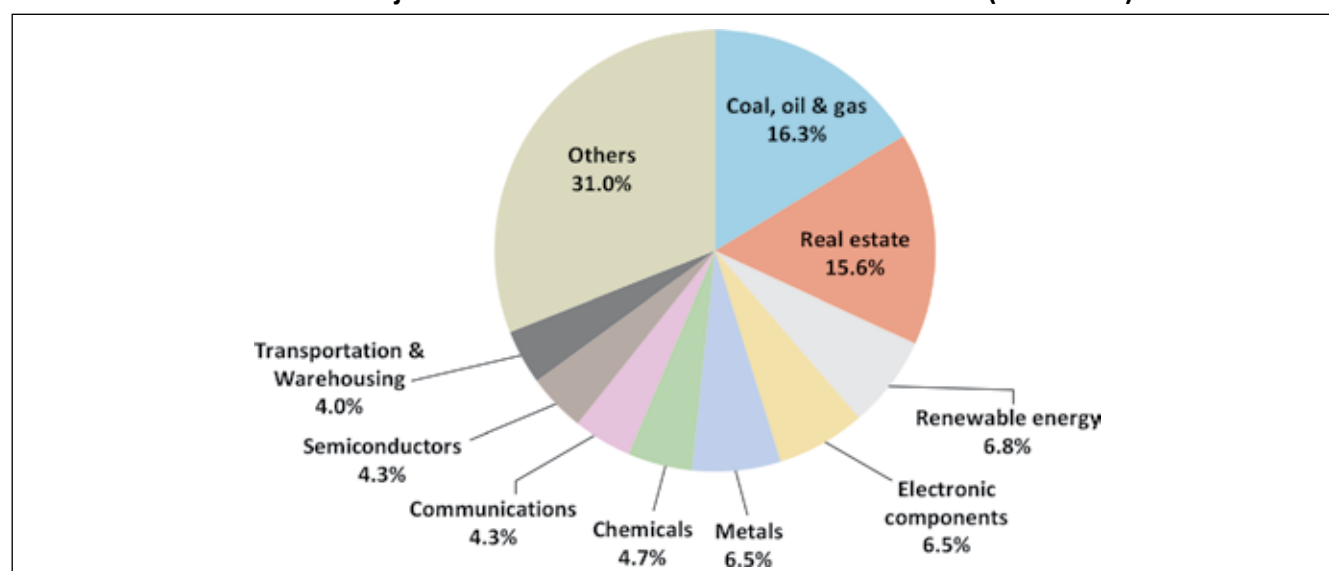
**Chart 2.2: Foreign Direct Investment Inflow Recipient Countries in ASEAN (2013-2022)**



Source: fDi Markets online database and India Exim Bank Analysis

**Chart 2.3** presents the major sectors attracting envisaged FDI in the ASEAN region, across the 2013 to 2022 decade. During the same period, coal, oil and gas was the largest recipient of FDI in the region with a share of 16.3% in total FDI inflows. Other major sectors attracting envisaged FDI in the region include real estate (15.6%), renewable energy (6.8%), electronic components (6.5%), metals (6.5%), and chemicals (4.7%), among others.

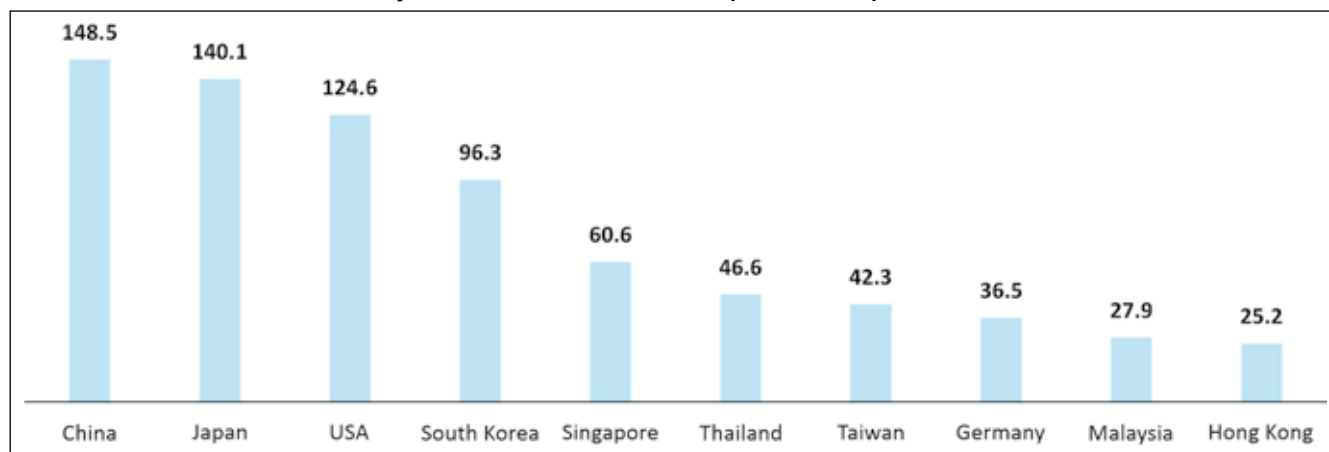
**Chart 2.3: Major Sectors for FDI Inflows in ASEAN Countries (2013-2022)**



Source: fDi Markets online database and India Exim Bank Analysis

In terms of the envisaged FDI inflows into ASEAN during 2013 to 2022, major investing countries were China (US\$ 148.5 billion), Japan (US\$ 140.1 billion), USA (US\$ 124.6 billion), South Korea (US\$ 96.3 billion), and Singapore (US\$ 60.6 billion), among others (**Chart 2.4**).

**Chart 2.4: Major FDI Sources to ASEAN (US\$ billion) from 2013 to 2022**



Source: fDi Markets online database and India Exim Bank Analysis

## FDI Outflows from ASEAN

Total outward envisaged investment of US\$ 456.4 billion was made by the ASEAN entities in 4,324 projects across the globe from 2013 to 2022 (**Table 2.3**). FDI outflows from ASEAN which stood at US\$ 29.4 billion in 2013, increased to reach US\$ 78.9 billion in 2019. Thereafter, FDI outflows witnessed a moderation to US\$ 37.9 billion in 2020 before suffering a major setback from the coronavirus pandemic and decreasing to US\$ 25.2 billion in 2021. Stemming from post pandemic recovery FDI outflows increased to US\$ 32.9 billion in 2022.

**Table 2.3: Foreign Direct Investment Outflows from ASEAN**

Year	Capex (US\$ billion)	Projects	Companies
2013	29.4	386	218
2014	36.7	442	277
2015	59.7	424	301
2016	64.9	450	310
2017	26.3	361	242
2018	64.6	624	337
2019	78.9	463	277
2020	37.9	301	202
2021	25.2	366	223
2022	32.9	507	310
<b>Total</b>	<b>456.4</b>	<b>4,324</b>	<b>1,918</b>

Source: fDi Markets online database and India Exim Bank Analysis



Singapore was the largest outward directed investment source among the ASEAN countries, investing US\$ 243.1 billion (more than half of the total envisaged outflows) during 2013-2022 (**Table 2.4**). Singapore was followed by Thailand (16% of total envisaged outflows), Malaysia (14.9%), Indonesia (6.5%), Philippines (4.5%), Vietnam (4.5%) and Cambodia (0.1%), among others.

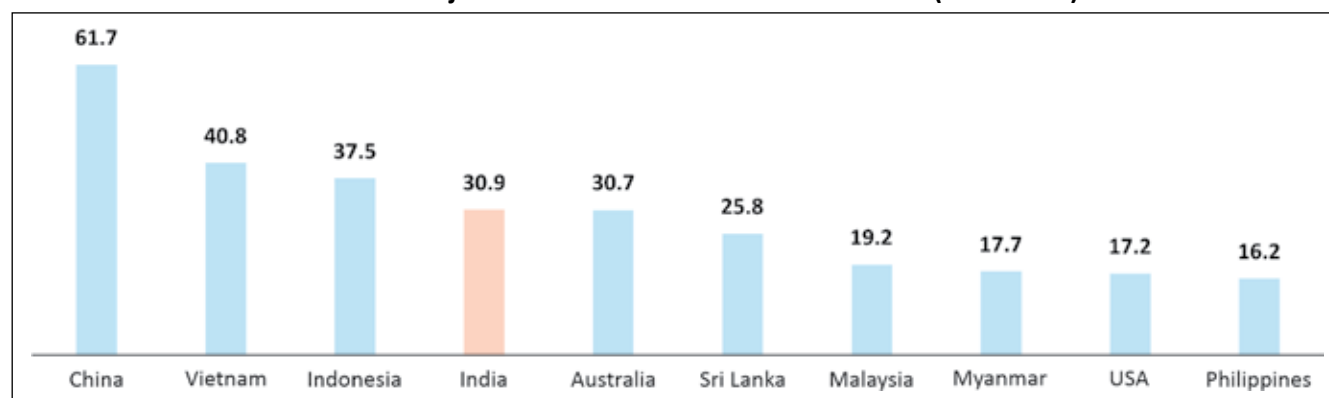
**Table 2.4: Sources of Outward Investments from ASEAN Countries (2013-2022)**

Source Country	Capex (US\$ billion)	Projects	Companies
Singapore	243.1	2,478	1,051
Thailand	73.2	657	259
Malaysia	67.9	553	304
Indonesia	29.8	173	88
Philippines	20.6	185	87
Vietnam	20.5	244	114
Cambodia	0.6	15	6
Myanmar	0.4	13	8
Laos	0.3	2	2
Brunei	0.2	4	2
<b>Total</b>	<b>456.4</b>	<b>4,324</b>	<b>1,918</b>

Source: fDi Markets online database and India Exim Bank Analysis

China was also the largest recipient of envisaged investment from ASEAN with a capex of US\$ 61.7 billion during 2013-2022 (**Chart 2.5**). China was followed by Vietnam (US\$ 40.8 billion), Indonesia (US\$ 37.5 billion), India (US\$ 30.9 billion), and Australia (US\$ 30.7 billion), among others.

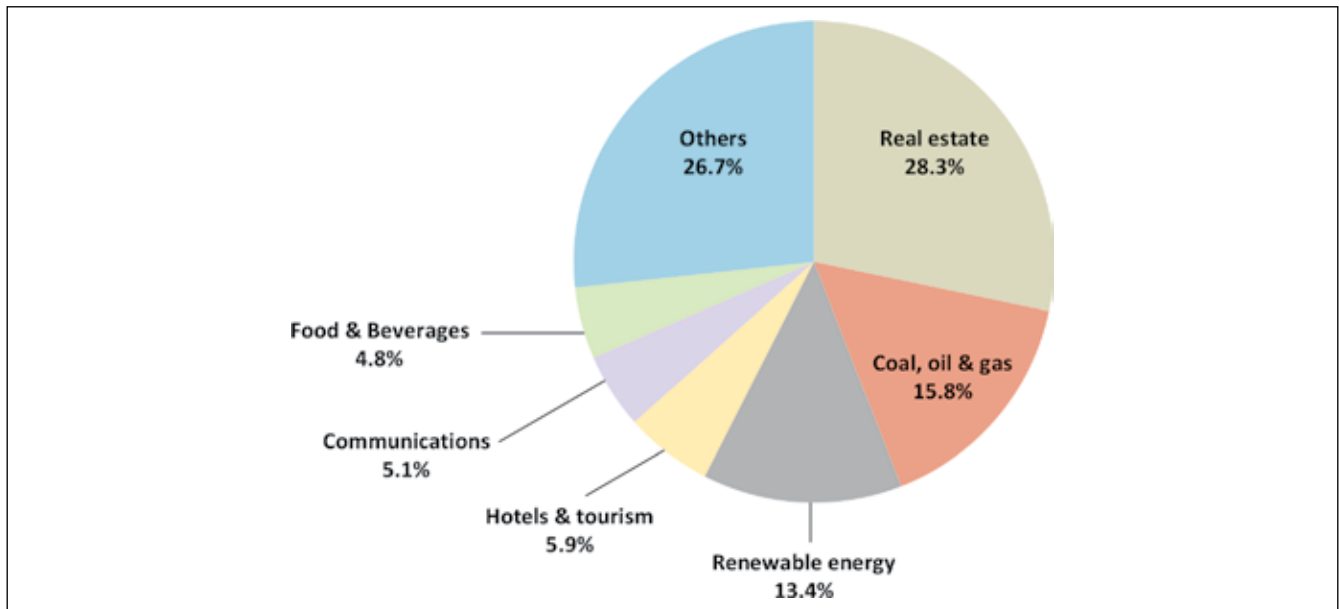
**Chart 2.5: Major Investment Destinations of ASEAN (2013-2022)**



Source: fDi Markets online database and India Exim Bank Analysis

Real estate sector accounts for 28.3% of the envisaged investment flowing out of ASEAN, amounting to US\$ 129.1 billion during 2013-2022 (**Chart 2.6**). Other major sectors attracting capex are coal, oil and gas (US\$ 72.1 billion), renewable energy (US\$ 61.3 billion), hotels and tourism (US\$ 26.9 billion), communications (US\$ 23.1 billion) and food and beverages (US\$ 22 billion), among others.

**Chart 2.6: Major Sectors Attracting FDI from ASEAN (2013-2022)**



Source: fDi Markets online database and India Exim Bank Analysis



## India and ASEAN: Trade and Investment Relations

The significance of India-ASEAN relationship is multi-faceted and encompasses political, economic, strategic, and cultural aspects. ASEAN plays a central role in promoting a rules-based security architecture in the Indo-Pacific region, which is essential for the region's stability and prosperity. In the recently concluded 18th East Asia Summit (EAS), the Hon'ble Prime Minister of India reiterated the importance of the EAS mechanism and reaffirmed India's support to further strengthening it. He underlined India's support for ASEAN centrality and called for ensuring a free, open and rules-based Indo-Pacific. Further on, he highlighted synergies of visions for Indo-Pacific between India and ASEAN, and underscored that ASEAN is the focal point of Quad's vision.

### **ASEAN-India Comprehensive Economic Cooperation Agreement (CECA)**

Realising the importance of ASEAN region in India's economic development, India gave special attention to the region through its "Look East" policy. India signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN in October 2003. After six years of negotiation, India signed FTA with ASEAN on September 13<sup>th</sup> 2009 which came into effect from January 1st 2010. Under the agreement commodities are grouped in to five categories for tariff reduction namely Normal Track-1(NT-1), Normal Track-2 (NT-2), Sensitive and Highly Sensitive Track (ST), Special Products (SP) and Negative List (NL).

The existing free trade agreement between India and the ASEAN is split across three aspects - Trade in Goods; Trade in Services; and Investment. Even though the exclusion lists under AIFTA are subject to an annual tariff review with a view to improving market access, there are 489 tariff lines listed under the negative list, belonging to the sectors like agriculture, textile, machinery, automobile, chemicals, and plastics.

#### **• Trade in Goods Agreement**

- In the agreement, preferential imports form nearly 70% of the imports of India from ASEAN. India has extended zero, near-zero and low preferential tariffs in most of the products except coffee, tea and mate, among others. However, the MFN tariff is nearly double the preferential tariffs in both cases resulting in the high preference margins.
- With respect to ASEAN's imports from India, preferential imports cover 48% of imports. The preference margin is less for many HS 2-digit codes and the value of preferential imports covered under different codes is also relatively less. The challenge for India here is that there might be some preferential

margin benefit to India, such as in the case of cereals where preferential tariff is 3.8% and MFN tariff is 9.5%, however, the value of preferential imports is very low<sup>4</sup>.

**Table 3.1: ASEAN-India Tariff Reduction/Elimination Framework**

Category	Brunei, Indonesia, Malaysia, Singapore, Thailand & India	Philippines & India	Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) & India
<b>Normal Track 1</b>	Applied Most Favoured Nation (MFN) tariff rates to be reduced to 0% by 2013	Applied MFN tariff rates to be reduced to 0% by 2018	Applied MFN tariff rates to be reduced to 0% for India by 2013 and 0% for CLMV by 2018
<b>Normal Track 2</b>	Applied MFN tariff rates to be reduced to 0% by 2016	Applied MFN tariff rates to be reduced to 0% by 2019	Applied MFN tariff rates to be reduced to 0% for India by 2016 and 0% for CLMV by 2021
<b>Sensitive Track</b>	i. Applied MFN tariff rates to be reduced to 5% by 2016	i. Applied MFN tariff rates to be reduced to 5% by 2019	i. Applied MFN tariff rates to be reduced to 5% by 2016 for India and for CLMV by 2021
	ii. Other than 50 tariff lines, MFN rates to be reduced to 4.5% upon entry into force of the Agreement. Preferential Tariffs rates to be reduced to 4% by 2016	ii. Other than 50 tariff lines, MFN rates to be reduced to 4.5% upon entry into force of the Agreement. Preferential Tariffs rates to be reduced to 4% by 2019	ii. Other than 50 tariff lines, MFN rates to be reduced to 4.5% by 5 years for CLMV. Preferential Tariffs rates to be reduced to 4% by 2021
	iii. Applied MFN tariff rates on 4% of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2019	iii. Applied MFN tariff rates on 4% of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2022	iii. Applied MFN tariff rates on 4% of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2024
<b>Special Product* (Applicable for India)</b>	MFN tariff rate to be reduced to 37.5% for crude oil, 50% for pepper, 45% for palm oil, coffee and black tea by 2019	MFN tariff rate to be reduced to 37.5% for crude oil, 50% for pepper, 45% for palm oil, coffee and black tea by 2019	MFN tariff rate to be reduced to 37.5% for crude oil, 50% for pepper, 45% for palm oil, coffee and black tea by 2019

<sup>4</sup> Relooking India's Tariff Policy Framework, India Exim Bank, March 2020

Category	Brunei, Indonesia, Malaysia, Singapore, Thailand & India	Philippines & India	Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) & India
<b>Highly Sensitive Track (Not applicable for Brunei, Lao, Myanmar &amp; Singapore)</b>	MFN tariff rates to be reduced to 50% (Category 1), 50% (Category 2) and 25% (Category 3) by 2019	MFN tariff rates to be reduced to 50% (Category 1), 50% (Category 2) and 25% (Category 3) by 2022	MFN tariff rates to be reduced to 50% (Category 1), 50% (Category 2) and 25% (Category 3) by 2024
<b>Exclusion List</b>	Exclusion Lists shall be subject to an annual tariff review with a view to improving market access	Exclusion Lists shall be subject to an annual tariff review with a view to improving market access	Exclusion Lists shall be subject to an annual tariff review with a view to improving market access

\* India's Schedule of Tariff Commitments consists of 40 items placed under Special Products. This is also referred to as India's Highly Sensitive List. These items belong to 5 products namely Crude Palm Oil (CPO), Refined Palm Oil (RPO), coffee, pepper and tea.

Source: ASEAN – India Trade Goods Agreement, Ministry of Commerce and Industry, Government of India

## • Trade in Services and Investment Agreement

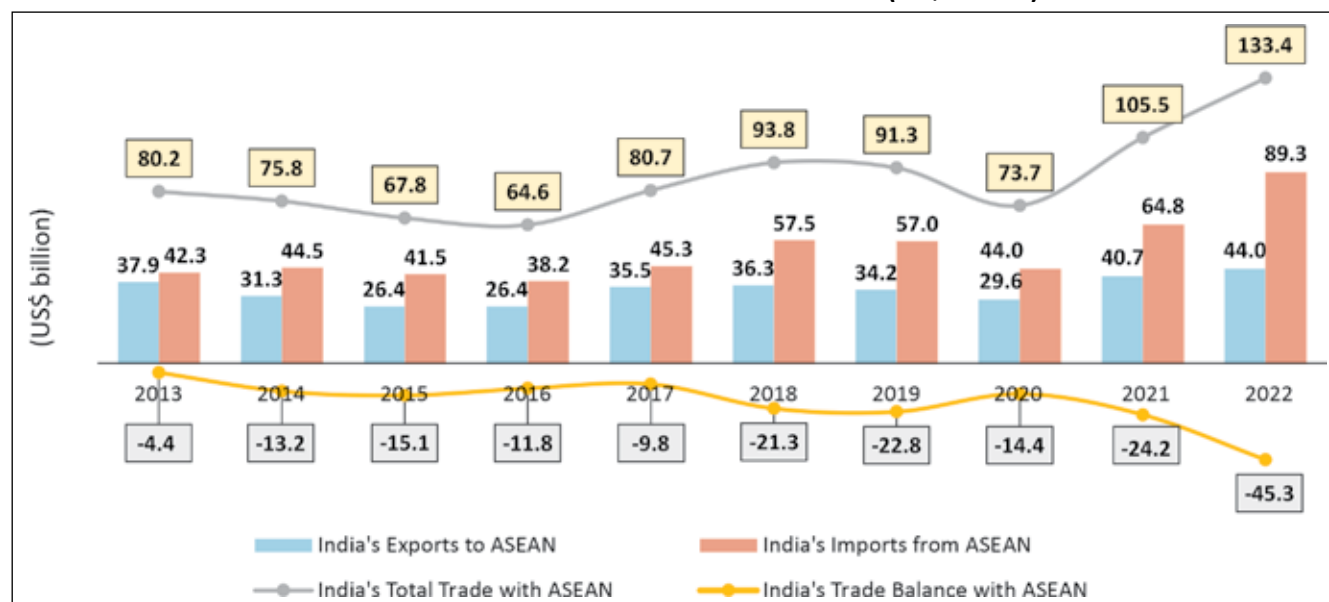
Both India and ASEAN Member States have taken GATS plus commitments in various Services and modes of supply. Each ASEAN Member State has tabled individual schedule of commitments which are equally applicable for India and other ASEAN Member States. India on the other hand has tabled three schedules of commitments one for Philippines, one for Indonesia and one for the remaining eight ASEAN Member States. It was also agreed by India that in order to increase participation of the least developed countries no additional requests would be tabled to the CLMV countries (Cambodia, Lao, Myanmar and Vietnam). All the three schedules tabled by India are well within the existing autonomous regime of India.

## India-ASEAN Trade: Current Trends

In recent years, ASEAN has become among the largest trading partners of India. Total trade between India and ASEAN has increased from US\$ 80.2 billion in 2013 to US\$ 133.4 billion in 2022, now accounting for 11.3% of India's total global trade in the year (**Chart 3.1**). Such rising total trade between India and ASEAN could be attributed to the India-ASEAN Agreement on Trade in Goods, in addition to the other bilateral agreements India has signed with the ASEAN countries.

However, the post-FTA era shows growing merchandise trade favouring ASEAN over India, as reflected by the persistent deficit in trade balance witnessed by India over the decade, thereby driving up the total trade levels. This trade deficit has worsened in the recent years, widening from US\$ 4.4 billion in 2013 to US\$ 45.3 billion in 2022. The trade deficit has, in particular, seen a steady rise post the COVID-19 pandemic driven by a jump in India's imports of mineral fuels and oils from the region. Overall, through the time period, India's total trade with ASEAN has grown at a CAGR of 5.2%. India's exports to the region grew at a CAGR of 1.5% while its imports from ASEAN saw higher growth at CAGR 7.8%.

Chart 3.1: India's Bilateral Trade with ASEAN (US\$ billion)



Source: ITC Trade Map and India Exim Bank Analysis

Overall, ASEAN accounted for 9.7% of India's total global exports in 2022. In terms of India's country wise exports to the region, Singapore was the top export destination with a share of almost 27% of India's total exports to ASEAN, followed by Indonesia (22.4%), Malaysia (16.3%), Thailand (13.7%) and Vietnam (13.4%) (**Table 3.2**). Further on, in terms of imports from the region, ASEAN accounted for 12.2% of India's total global imports in 2022. With regards to India's country wise imports from the region, Indonesia was the top import source with a share of 32.1% of the total imports from ASEAN, followed by Singapore (27.3%), Malaysia (15.2%), Thailand (12.6%) and Vietnam (10.1%), among others.

Table 3.2: India's Bilateral Trade with ASEAN Countries (US\$ million)

Country	Exports		Imports		Total Trade		Trade Balance	
	2013	2022	2013	2022	2013	2022	2013	2022
Brunei	40.3	68.8	766.1	317.3	806.3	386.1	-725.8	-248.4
Cambodia	136.8	227.4	12.8	120.4	149.6	347.8	124.0	106.9
Indonesia	5,557.9	9,866.6	14,984.1	28,665.3	20,542.0	38,532.0	-9426.1	-18798.7
Lao PDR	61.3	16.9	111.3	57.5	172.6	74.4	-50.0	-40.6
Malaysia	5,496.8	7,190.5	9,330.7	13,542.4	14,827.6	20,732.9	-3,833.9	-6,351.8
Myanmar	742.9	765.2	1,366.2	1,032.3	2,109.1	1,797.5	-623.4	-267.2
Philippines	1,469.1	2,160.8	408.8	896.4	1,877.9	3,057.3	1,060.3	1,264.4
Singapore	14,189.0	11,830.8	7,026.6	24,418.7	21,215.7	36,249.5	7,162.4	-12,587.9
Thailand	4,203.8	6,039.4	5,475.4	11,250.5	9,679.3	17,289.9	-1,271.6	-5,211.1
Vietnam	5,987.6	5,880.8	2,826.7	9,004.7	8,814.3	14,885.5	3,160.9	-3,124.0

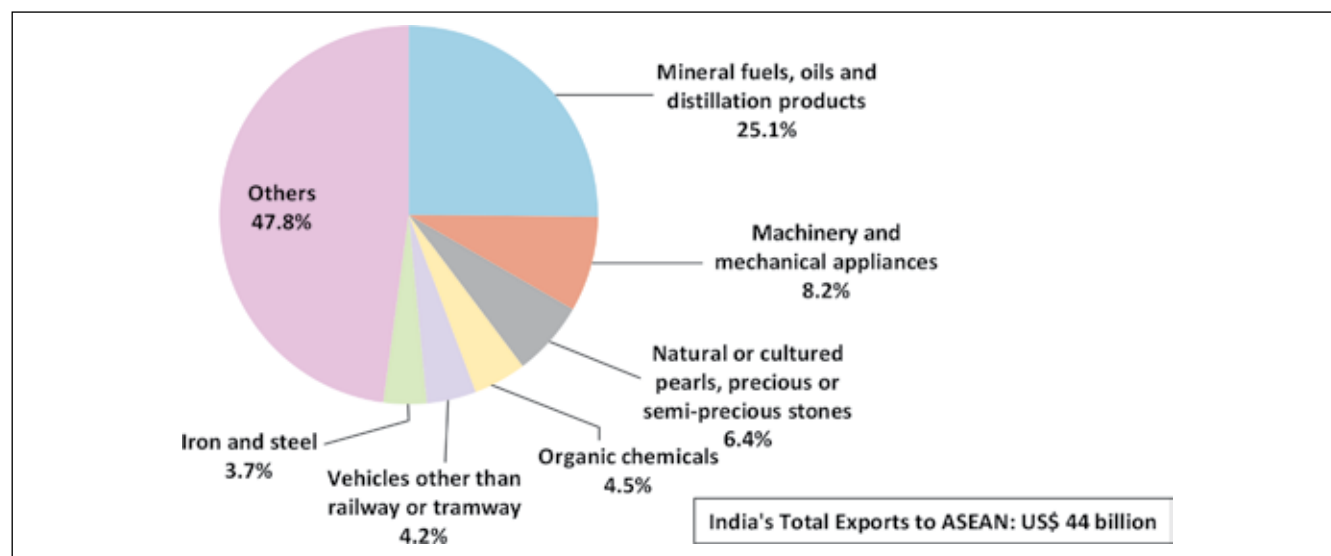
Source: ITC Trade Map and India Exim Bank Analysis

Overall, in 2022, Indonesia was India's largest trading partner in the region with total trade amounting to US\$ 38.5 billion, followed by Singapore, Malaysia, Thailand and Vietnam. Regarding India's trade balance with

the ASEAN countries in the same year, India holds a trade deficit with all countries except Cambodia and the Philippines wherein India has surplus of US\$ 106.9 million and US\$ 1.3 billion respectively. The largest trade deficit was with Indonesia amounting to US\$ 18.8 billion, driven primarily by imports of vegetable oils.

In terms of major exports, both 2013 and 2022 saw mineral fuels and oils as the top export product from India, shares for which, however, decreased from 29.3% in 2013 to 25.1% in 2022 (**Chart 3.2**). Other major export products are machinery and mechanical appliances (8.2% of India's total exports), natural or cultured pearls, precious or semi-precious stones (6.4%), organic chemicals (4.5%), vehicles other than railway or tramway (4.2%) and iron and steel (3.7%), among others.

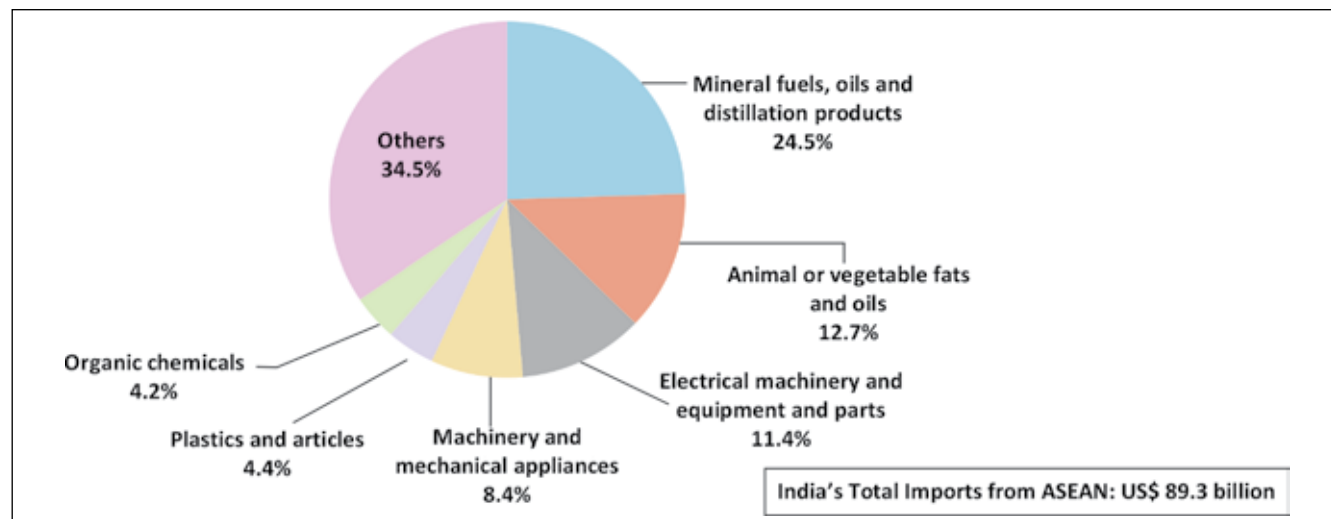
**Chart 3.2: India's Major Export Commodities to ASEAN, 2022 (% Share)**



Source: ITC Trade Map and India Exim Bank Analysis

Similarly, mineral fuels and oils also remained as India's top import from ASEAN, with shares being largely unchanged from 24.3% of India's total imports from ASEAN in 2013 to 24.5% in 2022 (**Chart 3.3**).

**Chart 3.3: India's Major Import Commodities from ASEAN, 2022 (% Share)**



Source: ITC Trade Map and India Exim Bank Analysis

Although the product list for India's top exports to ASEAN saw certain modifications when comparing the commodity composition of 2013 to 2022, the top import product list largely remained consistent for these years. **Table 3.3** provides India's majorly traded commodities with all ASEAN economies.

**Table 3.3: India's Trade with ASEAN Countries – Product List (2022)**

Country	Major Exports	Major Imports
<b>Brunei</b> Exports: US\$ 68.8 mn Imports: US\$ 317.3 mn	<ul style="list-style-type: none"> <li>• Vehicles other than railway or tramway (59.2%)</li> <li>• Machinery and mechanical appliances (9.6%)</li> <li>• Meat and edible meat offal (7.7%)</li> <li>• Cereals (2%)</li> <li>• Miscellaneous chemical products (1.6%)</li> </ul>	<ul style="list-style-type: none"> <li>• Mineral fuels, oils and distillation products (89.9%)</li> <li>• Organic chemicals (9.3%)</li> <li>• Miscellaneous chemical products (0.66%)</li> <li>• Machinery and mechanical appliances (0.14%)</li> <li>• Optical, photographic, medical or surgical instruments (0.01%)</li> </ul>
<b>Cambodia</b> Exports: US\$ 227.4 mn Imports: US\$ 120.4 mn	<ul style="list-style-type: none"> <li>• Pharmaceutical products (32.4%)</li> <li>• Meat and edible meat offal (15.2%)</li> <li>• Vehicles other than railway or tramway (13.7%)</li> <li>• Man-made filaments (3.9%)</li> <li>• Residues and waste from the food industries (3.7%)</li> </ul>	<ul style="list-style-type: none"> <li>• Organic chemicals (19.4%)</li> <li>• Electrical machinery and equipment (17.8%)</li> <li>• Articles of apparel and clothing accessories, knitted or crocheted (17.2%)</li> <li>• Animal or vegetable fats and oils (14.3%)</li> <li>• Footwear, gaiters and the like (13.9%)</li> </ul>
<b>Indonesia</b> Exports: US\$ 9866.6 mn Imports: US\$ 28665.3 mn	<ul style="list-style-type: none"> <li>• Petroleum products (37.2%)</li> <li>• Sugars and sugar confectionery (7.5%)</li> <li>• Vehicles other than railway or tramway (6.7%)</li> <li>• Organic chemicals (4.8%)</li> <li>• Iron and steel (4.2%)</li> </ul>	<ul style="list-style-type: none"> <li>• Mineral fuels, oils and distillation products (51.4%)</li> <li>• Animal or vegetable fats and oils (19.5%)</li> <li>• Iron and steel (5.7%)</li> <li>• Ores, slag and ash (3.4%)</li> <li>• Miscellaneous chemical products (2.6%)</li> </ul>
<b>Lao PDR</b> Exports: US\$ 16.9 mn Imports: US\$ 57.5 mn	<ul style="list-style-type: none"> <li>• Vehicles other than railway or tramway (39.5%)</li> <li>• Pharmaceutical products (33.1%)</li> <li>• Raw hides and skins (other than furskins) and leather (6.4%)</li> <li>• Residues and waste from the food industries (6%)</li> <li>• Machinery and mechanical appliances (5.6%)</li> </ul>	<ul style="list-style-type: none"> <li>• Pearls, precious or semi-precious stones and metals (97.9%)</li> <li>• Coffee, tea and spices (0.60%)</li> <li>• Wood and articles of wood (0.55%)</li> <li>• Lac (0.46%)</li> <li>• Electrical machinery and equipment (0.26%)</li> </ul>
<b>Malaysia</b> Exports: US\$ 7190.5 mn Imports: US\$ 13542.4 mn	<ul style="list-style-type: none"> <li>• Petroleum products (24.2%)</li> <li>• Aluminium and articles (8.3%)</li> <li>• Organic chemicals (8.2%)</li> <li>• Meat and edible meat offal (7.1%)</li> <li>• Machinery and mechanical appliances (5.8%)</li> </ul>	<ul style="list-style-type: none"> <li>• Animal or vegetable fats and oils (29.5%)</li> <li>• Mineral fuels, oils and distillation products (14.6%)</li> <li>• Electrical machinery and equipment (8.2%)</li> <li>• Machinery and mechanical appliances (7.6%)</li> <li>• Organic chemicals (5.7%)</li> </ul>



Country	Major Exports	Major Imports
<b>Myanmar</b> Exports: US\$ 765.2 mn Imports: US\$ 1032.3 mn	<ul style="list-style-type: none"> <li>Pharmaceutical products (29.7%)</li> <li>Products of animal origin (18.1%)</li> <li>Cotton (6.4%)</li> <li>Electrical machinery and equipment (5.6%)</li> <li>Residues and waste from the food industries (3.4%)</li> </ul>	<ul style="list-style-type: none"> <li>Edible vegetables and certain roots (66.4%)</li> <li>Edible fruit and nuts (12.4%)</li> <li>Wood and articles of wood (5.3%)</li> <li>Rubber and articles (2.3%)</li> <li>Articles of iron or steel (2%)</li> </ul>
<b>Philippines</b> Exports: US\$ 2160.8 mn Imports: US\$ 896.4 mn	<ul style="list-style-type: none"> <li>Vehicles other than railway or tramway (18%)</li> <li>Pharmaceutical products (13.8%)</li> <li>Machinery and mechanical appliances (6.3%)</li> <li>Meat and edible meat offal (5.9%)</li> <li>Cereals (5.1%)</li> </ul>	<ul style="list-style-type: none"> <li>Machinery and mechanical appliances (25.3%)</li> <li>Electrical machinery and equipment (19.1%)</li> <li>Inorganic chemicals (11.1%)</li> <li>Pearls, precious or semi-precious stones and metals (9.5%)</li> <li>Optical, photographic, medical, or surgical instruments (4.3%)</li> </ul>
<b>Singapore</b> Exports: US\$ 11830.8 mn Imports: US\$ 24418.7 mn	<ul style="list-style-type: none"> <li>Petroleum products (46.6%)</li> <li>Pearls, precious or semi-precious stones and metals (10.8%)</li> <li>Machinery and mechanical appliances (10%)</li> <li>Ships, boats and floating structures (9.1%)</li> <li>Electrical machinery and equipment (4%)</li> </ul>	<ul style="list-style-type: none"> <li>Mineral fuels, oils and products distillation (19.5%)</li> <li>Electrical machinery and equipment (15.7%)</li> <li>Machinery and mechanical appliances (15.1%)</li> <li>Ships, boats and floating structures (11.7%)</li> <li>Organic chemicals (6.6%)</li> </ul>
<b>Thailand</b> Exports: US\$ 6039.4 mn Imports: US\$ 11250.5 mn	<ul style="list-style-type: none"> <li>Pearls, precious or semi-precious stones and metals (21.6%)</li> <li>Machinery and mechanical appliances (17.9%)</li> <li>Fish, crustaceans, and aquatic invertebrates (5.3%)</li> <li>Vehicles other than railway or tramway (5.3%)</li> <li>Aluminium and articles (4%)</li> </ul>	<ul style="list-style-type: none"> <li>Machinery and mechanical appliances (14.8%)</li> <li>Plastics and articles (13.1%)</li> <li>Animal or vegetable fats and oils (11%)</li> <li>Electrical machinery and equipment (10%)</li> <li>Pearls, precious or semi-precious stones and metals (9.1%)</li> </ul>
<b>Vietnam</b> Exports: US\$ 5880.8 mn Imports: US\$ 9004.7 mn	<ul style="list-style-type: none"> <li>Iron and steel (13.5%)</li> <li>Meat and edible meat offal (8%)</li> <li>Cereals (7.6%)</li> <li>Fish, crustaceans, and aquatic invertebrates (6.2%)</li> <li>Machinery and mechanical appliances (5.6%)</li> </ul>	<ul style="list-style-type: none"> <li>Electrical machinery and equipment (41%)</li> <li>Inorganic chemicals (7.9%)</li> <li>Copper and articles (7.2%)</li> <li>Machinery and mechanical appliances (6.8%)</li> <li>Plastics and articles (4.8%)</li> </ul>

Source: ITC Trade Map and India Exim Bank Analysis

## India-ASEAN Bilateral Investment: Recent Trends and Prospects

India has been working to strengthen its economic ties with ASEAN countries through mutually beneficial investments. ASEAN is a significant investor for India, and the region plays a crucial role in India's "Act East" policy. Bilateral investment flows between India and ASEAN countries have been on the rise in recent years.

Among the ASEAN economies, Singapore has a dominating presence in India's investment relations with the region. Singapore continues to be the major investor in India with a share of almost 98% of India's total FDI inflows from ASEAN, followed by Thailand (0.8%) and Malaysia (0.8%), among others (**Table 3.4**).

**Table 3.4: India's Bilateral FDI Flows with ASEAN Countries (US\$ million)**

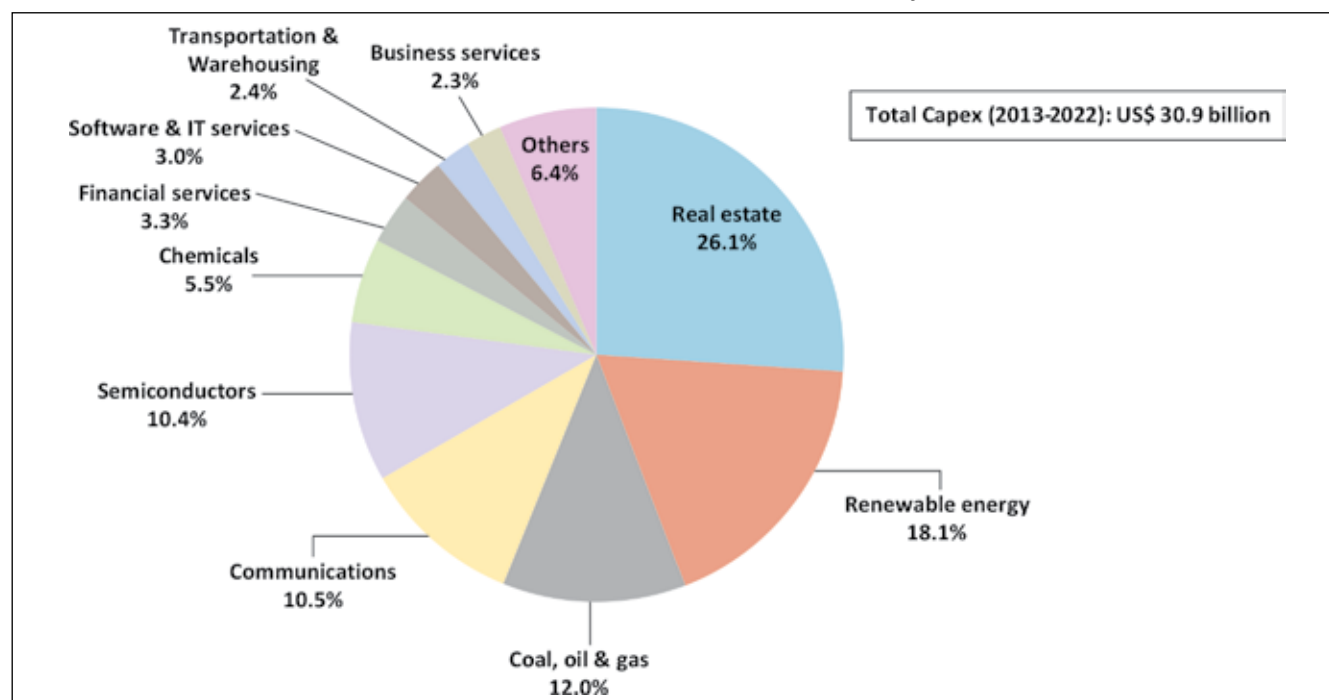
Countries	FDI Outflows (April 1996 to March 2023)	Share in India's total FDI outflows to ASEAN (%)	FDI Inflows (April 2000 to March 2023)	Share in India's total FDI inflows from ASEAN (%)
Brunei	2.3	0.002%	39.1	0.026%
Cambodia	34.4	0.03%	50.2	0.033%
Indonesia	1718.5	1.7%	648.4	0.4%
Lao PDR	16.8	0.02%	-	-
Malaysia	1649.9	1.6%	1175.3	0.8%
Myanmar	841.1	0.8%	9.0	0.01%
Philippines	988.6	1.0%	479.9	0.3%
Singapore	93825.0	93.2%	148169.2	97.6%
Thailand	706.2	0.7%	1209.4	0.8%
Vietnam	894.8	0.9%	5.5	0.004%
<b>ASEAN Total</b>	<b>100677.6</b>	<b>100.0%</b>	<b>151785.9</b>	<b>100.0%</b>
<b>Share of ASEAN in India's total Investments (%)</b>		<b>23.2%</b>		<b>23.9%</b>

Source: Reserve Bank of India and Department for Promotion of Industry and Internal Trade (DPIIT), Government of India and India Exim Bank Analysis

In terms of FDI outflows too, Singapore is India's major destination accounting for a share of 93.2% of India's total FDI outflows to ASEAN, followed by Indonesia (1.7%), Malaysia (1.6%) and Philippines (1%), among others. This is also in line with India's global FDI trends, wherein Singapore is the largest destination for India's FDI outflow during April 1996 to August 2023, while it is the second largest source for FDI inflows during April 2000 to June 2023 with a share of 23.4% in India's total FDI inflows.

Drawing upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets, the study analyses the sector-wise breakup of such FDI flows both from and to India over the period of 2013 to 2022. Accordingly, ASEAN's FDI inflows to India has primarily been in the real estate sector with a share of 26.1% of India's total FDI flows from ASEAN, followed by renewable energy (18.1%), coal, oil and gas (12%), communications (10.5%), semiconductors (10.4%) and chemicals (5.5%), among others (**Chart 3.4**).

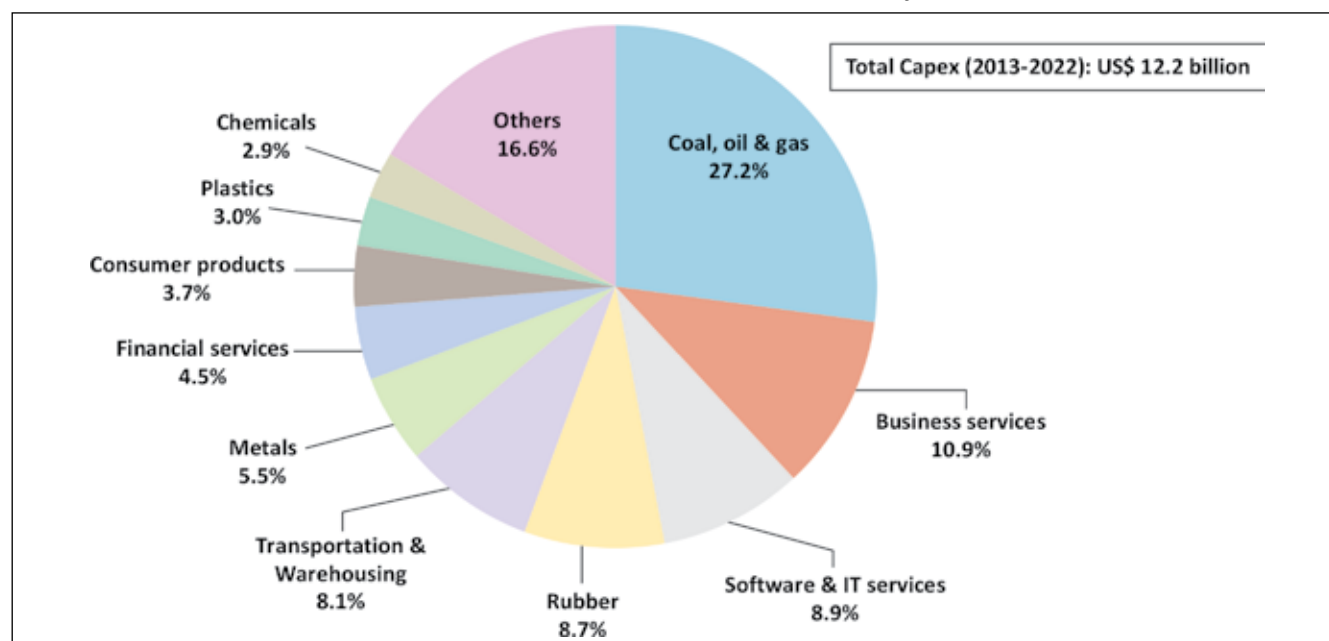
**Chart 3.4: India's FDI Inflows from ASEAN – Major Sectors**



Source: fDi Markets and India Exim Bank Analysis

India's FDI outflows to ASEAN, on the other hand, in total capex terms, has been less than half of its FDI inflows from the region over the decade. As seen in **Chart 3.5**, majority of India's FDI outflows was directed towards the coal, oil and gas sector with a share of 27.2% of India's total FDI outflows to ASEAN, followed by business services (10.9%), software and IT services (8.9%), rubber (8.7%) and transportation and warehousing (8.1%), among others.

**Chart 3.5: India's FDI Outflows to ASEAN – Major Sectors**



Source: fDi Markets and India Exim Bank Analysis

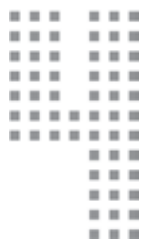
The major sectors of investments between India and the ASEAN countries from 2013 to 2022 are listed in **Table 3.5**.

**Table 3.5: India's Bilateral Investments with ASEAN Countries - Major Sectors (2013-2022)**

Country	Major Investments in India	Major Investments from India
Cambodia	-	<ul style="list-style-type: none"> <li>Automotive OEM (93.7%)</li> <li>Pharmaceuticals (5.7%)</li> <li>Hotels &amp; tourism (0.6%)</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>Software &amp; IT services (54.2%)</li> <li>Transportation &amp; Warehousing (25.3%)</li> <li>Consumer products (11.9%)</li> <li>Financial services (7.7%)</li> <li>Hotels &amp; tourism (0.8%)</li> </ul>	<ul style="list-style-type: none"> <li>Rubber (26.4%)</li> <li>Consumer electronics (16.1%)</li> <li>Chemicals (12%)</li> <li>Software &amp; IT services (9%)</li> <li>Plastics (9%)</li> </ul>
Lao PDR	-	<ul style="list-style-type: none"> <li>Wood products (100%)</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Renewable energy (58.6%)</li> <li>Chemicals (25.2%)</li> <li>Coal, oil &amp; gas (7.2%)</li> <li>Transportation &amp; Warehousing (3.8%)</li> <li>Consumer products (1.2%)</li> </ul>	<ul style="list-style-type: none"> <li>Transportation &amp; Warehousing (43.1%)</li> <li>Business services (19.9%)</li> <li>Software &amp; IT services (12.1%)</li> <li>Chemicals (11.9%)</li> <li>Consumer products (8.7%)</li> </ul>
Myanmar	-	<ul style="list-style-type: none"> <li>Coal, oil &amp; gas (71%)</li> <li>Transportation &amp; Warehousing (16.6%)</li> <li>Wood products (4.1%)</li> <li>Financial services (4.1%)</li> <li>Pharmaceuticals (1.9%)</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>Renewable energy (89%)</li> <li>Business services (7.9%)</li> <li>Software &amp; IT services (3.1%)</li> </ul>	<ul style="list-style-type: none"> <li>Business services (49.9%)</li> <li>Metals (28.2%)</li> <li>Software &amp; IT services (14.1%)</li> <li>Financial services (3.5%)</li> <li>Transportation &amp; Warehousing (2.9%)</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>Real estate (35.2%)</li> <li>Semiconductors (14.11%)</li> <li>Coal, oil &amp; gas (14.10%)</li> <li>Communications (14.05%)</li> <li>Renewable energy (6.1%)</li> </ul>	<ul style="list-style-type: none"> <li>Software &amp; IT services (25.8%)</li> <li>Financial services (16.9%)</li> <li>Consumer products (12%)</li> <li>Business services (9.1%)</li> <li>Leisure &amp; entertainment (8.7%)</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>Food &amp; Beverages (57.9%)</li> <li>Plastics (13.6%)</li> <li>Rubber (13%)</li> <li>Transportation &amp; Warehousing (6.9%)</li> <li>Communications (5%)</li> </ul>	<ul style="list-style-type: none"> <li>Rubber (43.2%)</li> <li>Plastics (15.8%)</li> <li>Leisure &amp; entertainment (13.6%)</li> <li>Non-automotive transport OEM (7.4%)</li> <li>Transportation &amp; Warehousing (4.4%)</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>Software &amp; IT services (92.8%)</li> <li>Hotels &amp; tourism (7.2%)</li> </ul>	<ul style="list-style-type: none"> <li>Coal, oil &amp; gas (83.3%)</li> <li>Food &amp; Beverages (6.6%)</li> <li>Transportation &amp; Warehousing (2.2%)</li> <li>Software &amp; IT services (2.1%)</li> <li>Financial services (2%)</li> </ul>

Note: “-” indicates nil/negligible/ data not available

Source: fDi Markets and India Exim Bank Analysis



## Aligning India's Exports with ASEAN

Analysing the key products where India has a comparative advantage and matching it with ASEAN's import demand for these products is necessary for successful trade relations in the future as well. Quantification of comparative advantage helps in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

### Revealed Comparative Advantage

Revealed Comparative Advantage (RCA) is a measure which have been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. It can also provide useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country  $i$  for commodity  $j$  is:

$$RCA_{iju} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

Where,

$x_{ji}$ : Exports of Commodity 'j' from Country 'i'

$X_i$ : Total Exports from Country 'i'

$x_{jw}$ : Total Exports of Commodity 'j' from World

$X_w$ : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage. Since the RCA analysis is used in regard to one country's exports profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with ASEAN.

$$RCA_{iju} = (x_{iju}/X_{iu}) / (x_{wju}/X_{wu})$$

Where,

$x_{iju}$ : India's Exports of commodity 'j' to ASEAN

$X_{iu}$ : India's Total Exports to ASEAN

$x_{wju}$ : World's Exports of commodity 'j' to ASEAN

$X_{wu}$ : World's Total exports to ASEAN

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{iju} = (RCA_{iju} - 1) / (RCA_{iju} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1, means that the product has no export comparative advantage, while a value above 0 and less than 1, indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to the ASEAN's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted in order to identify products from the industries for which India has existing capabilities in exporting to ASEAN. These products are the potential export growth drivers from India to the ASEAN and could be suitably targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to the ASEAN, especially when considering that India already possesses manufacturing capabilities for these products. The objective of the exercise is to construct a product market matrix for products in demand in the ASEAN, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to the ASEAN.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2012-2022
- **Product Limit:** Only those products at 6-digit HS code level with a minimum export value of US\$ 5 million from India to ASEAN is considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in ASEAN, namely, the **NRCA for products, and Average Annual Growth Rate (AAGR)** of world imports to ASEAN.

On the basis of these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

**Product Champions (Product Import AAGR of ASEAN > World Import AAGR of ASEAN; Positive NRCA):**

These products have maximum potential, as ASEAN's import demand for these products has shown robust AAGR over the period 2012-22, while India's exports of these products to the ASEAN are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential

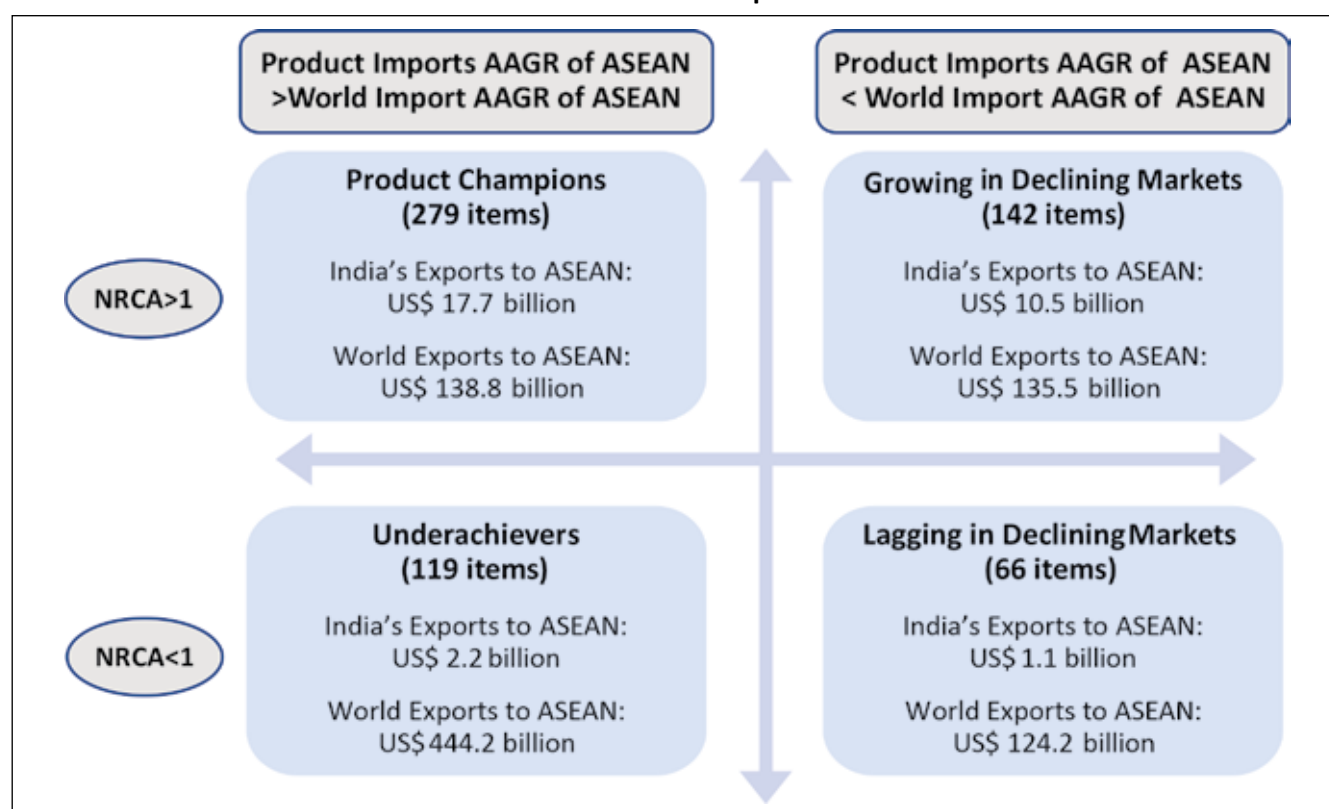
to ASEAN and India needs to further expand its exports of these products in order to take to advantage of its competitive position and achieve a greater market share in ASEAN.

**Underachievers (Product Import AAGR of ASEAN > World Import AAGR of ASEAN; Negative NRCA):** India does not have competitiveness in these products although their import demand has grown in ASEAN significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to ASEAN and further expand its bilateral ties with ASEAN.

**Winners in Declining Sectors (Product Import AAGR of ASEAN < World Import AAGR of ASEAN; Positive NRCA):** India has competitiveness in these products, even though the ASEAN's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

**Lagging in Declining Sectors (Product Import AAGR of ASEAN < World Import AAGR of ASEAN; Negative NRCA):** India does not have competitiveness in these products, and these sectors have also registered weak import demand in ASEAN during the period under consideration.

**Chart 4.1: Product Identification for Exports from India to ASEAN**



To identify the products based on their export competitiveness in ASEAN, the four-quadrant analysis has been undertaken based on the HS Code classification at 6-digit level, whilst calculating their NRCA and mapping them against the AAGR of global imports of ASEAN for all products (**Chart 4.1**). The quadrants are drawn by comparing the overall AAGR of global imports of ASEAN for all products during 2012-2022 (which was 5.18%), to the NRCA of India's exports to ASEAN of these products during the same period. This exercise

aims to identify products whose imports into ASEAN over the 2012-2022 period has performed better than the overall average of ASEAN for imports of all products during this period, implying that the share of such products in ASEAN's import basket has witnessed an increase, a reflection of their rising demand and dynamism. At 6-digit HS Code, with minimum exports of US\$ 5 million from India to ASEAN, 606 products have been identified, with total exports from India to ASEAN amounting to US\$ 31.5 billion while the total world imports to ASEAN in the same products stood at US\$ 842.7 billion in 2022.

Out of the 606 items at the HS 6-digit level, 279 items fell into the category of the product champions. The combined exports of these items from India to ASEAN were US\$ 17.7 billion in 2022, representing 40.2% of India's total exports to ASEAN in the same year. Major product champions are provided in **Table 4.1**.

**Table 4.1: List of Top 10 Product Champions from India to ASEAN (HS 6-digit level)**

HS Code	Product Label	India's Exports to ASEAN (US\$ million)	Share in India's total exports to ASEAN (%)	Global Imports of ASEAN (US\$ million)	Share in Global Imports of ASEAN (%)
710239	Diamonds, worked, but not mounted or set (excl. industrial diamonds)	1596.2	3.6	3706.4	0.2
020230	Frozen, boneless meat of bovine animals	1434.2	3.3	3034.9	0.2
711319	Articles of jewellery and parts	862.1	2.0	6649.2	0.4
300490	Medicaments consisting of mixed or unmixed products	821.3	1.9	9293.1	0.5
790111	Unwrought zinc, not alloyed, containing by weight >= 99.99% of zinc	660.9	1.5	1560.6	0.1
841112	Turbojets of a thrust > 25 kN	551.5	1.3	7498.2	0.4
722530	Flat-rolled products of alloy steel other than stainless, of a width of >= 600 mm, not further ...	346.5	0.8	1642.4	0.1
100630	Semi-milled or wholly milled rice, whether or not polished or glazed	335.8	0.8	2232.7	0.1
100590	Maize (excl. seed for sowing)	318.1	0.7	4413.3	0.2
890120	Tankers	317.2	0.7	393.8	0.0

Source: ITC Trade Map and India Exim Bank Analysis

The total number of products in winners in declining sectors category is 142 items, with India's exports of these items amounting to US\$ 10.5 billion and holds a share of 23.8% of India's exports to ASEAN in 2022. Given in **Table 4.2**, these are product items in which India has attained a significant share in ASEAN's import basket, but ASEAN's import demand for these products has been falling in the last decade.



**Table 4.2: List of Top 10 Winners in Declining Sectors from India to ASEAN (HS 6-digit level)**

HS Code	Product Label	India's Exports to ASEAN (US\$ million)	Share in India's total exports to ASEAN (%)	Global Imports of ASEAN (US\$ million)	Share in Global Imports of ASEAN (%)
271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiese	4499.7	10.2	86715.7	4.6
760110	Aluminium, not alloyed, unwrought	1075.2	2.4	3299.7	0.2
890590	Light-vessels, fire-floats, floating cranes and other vessels, the navigability of which is ...	658.2	1.5	262.7	0.01
290243	p-Xylene	586.9	1.3	868.2	0.05
840890	Compression-ignition internal combustion piston engine "diesel or semi-diesel engine" (excl. ...	456.7	1.0	737.6	0.04
870899	Parts and accessories, for tractors, motor vehicles for the transport of ten or more persons, ...	340.6	0.8	6062.2	0.3
520100	Cotton, neither carded nor combed	160.8	0.4	5340.0	0.3
320417	Synthetic organic pigments; preparations based on synthetic organic pigments of a kind used ...	88.8	0.2	474.1	0.0
300420	Medicaments containing antibiotics, put up in measured doses "incl. those for transdermal administration" ...	80.7	0.2	472.1	0.0
240120	Tobacco, partly or wholly stemmed or stripped, otherwise unmanufactured	78.2	0.2	1026.8	0.1

Source: ITC Trade Map and India Exim Bank Analysis

This is followed by underachievers that have 119 items of India's exports amounting to US\$ 2.2 billion. These products account for 4.9% of India's total exports to ASEAN in 2022. **Table 4.3** list these items for which import demand in the ASEAN market is rising, but India does not have the required competitiveness in the export of these items.

**Table 4.3: List of Top 10 Underachievers from India to ASEAN (HS 6-digit level)**

HS Code	Product Label	India's Exports to ASEAN (US\$ million)	Share in India's total exports to ASEAN (%)	Global Imports of ASEAN (US\$ million)	Share in Global Imports of ASEAN (%)
230400	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting ...	117.3	0.3	10274.5	0.5
851762	Machines for the reception, conversion and transmission or regeneration of voice, images or	112.4	0.3	13003.4	0.7
848180	Appliances for pipes, boiler shells, tanks, vats or the like (excl. pressure-reducing valves, ...	88.6	0.2	4091.5	0.2
870840	Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more ...	88.0	0.2	4127.7	0.2
732690	Articles of iron or steel, n.e.s. (excl. cast articles or articles of iron or steel wire)	84.7	0.2	6235.6	0.3
847989	Machines and mechanical appliances, n.e.s.	72.9	0.2	4254.1	0.2
880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15.000 kg (excl. helicopters, ...	72.8	0.2	5098.4	0.3
850440	Static converters	61.4	0.1	5699.8	0.3
853710	Boards, cabinets and similar combinations of apparatus for electric control or the distribution ...	55.3	0.1	5657.6	0.3
903289	Regulating or controlling instruments and apparatus (excl. hydraulic or pneumatic, manostats, ...	52.6	0.1	2410.7	0.1

Source: ITC Trade Map and India Exim Bank Analysis

Lastly, in the product category of lagging in declining sectors, India's exports to ASEAN in 2022 amounted to US\$ 1.1 billion consisting of 66 items. These include products such as polypropylene, in primary forms (HS 390210); parts and accessories of bodies for tractors (HS 870829); parts suitable for use solely or principally with compression-ignition internal combustion (HS 840999); parts of machinery (HS 843149), among others.

The high number of India's export items under the category of declining sectors (142 items), second only to product champions (279 items), highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future to ASEAN. If such scarce resources are not diverted, then excess supply to these sectors facing limited import demand in the ASEAN market would result in further fall in prices in the future. Thus, a significant shift needs to be made from the declining sectors to the product

champions in the short run and underachievers in the medium to the long run, in order to make efficient utilization of resources and further enhance exports from India to ASEAN.

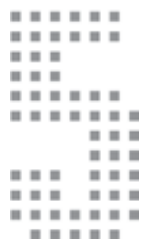
Further, the analysis suggests strengthening the existing products in the category of product champions in order to exploit the full potential of these products which are already showing a robust growth in the ASEAN market, whilst India's exports also hold a comparative advantage in them. The 279 product champions identified at 6-digit HS Code level can be further aggregated to product groups at 2-digit HS Code level (**Table 4.4**).

**Table 4.4: Broad Industry Classification of Identified Product Champions from India to ASEAN  
(HS 2-digit level)**

Broad Industry Category	HS Code	India's Exports to ASEAN in 2022 (US\$ million)	Share in India's Total Exports (%)
Agriculture and allied products	1-24	4004.9	9.1
Pearls and precious stones	71	2772.1	6.3
Machinery; electric equipment etc.	84-85	2028.3	4.6
Railway locomotives and other vehicles	86-89	1867.9	4.2
Chemicals and allied	28-29; 31-38	1766.1	4.0
Iron & steel and their articles	72-73	1620.9	3.7
Other Base metals and their articles	74-83	792.7	1.8
Textiles	50-60, 63	417.4	0.9
Articles of stone, plaster etc.	68-70	276.6	0.6
Plastics; rubber and their articles	39-40	204.0	0.5
Other; photographic; medical instruments and clocks	90-92	139.6	0.3
Apparels	61-62	127.0	0.3
Wood; pulp of wood and other articles	44-49	121.5	0.3
Mineral products	25	65.8	0.1
Leather articles etc.	41-43	52.7	0.1
Footwear; headgear etc.	64-67	44.9	0.1
Toys; games; sports requisites and other articles	94-96	31.3	0.1
Arms and ammunition	93	7.2	0.02

Source: ITC Trade Map and India Exim Bank Analysis

The above table also highlights the share of those sectors in India's exports to ASEAN in 2022. The data listed in **Table 4.4** is an aggregation of India's exports to ASEAN for the identified product champions at HS 6-digit level. The top 5 sectors of agriculture and allied, pearls and precious stones, machinery, railway locomotives, and chemicals and allied products, cumulatively hold almost 30% share in the product champion sectors of India to ASEAN.



## Challenges in India-ASEAN Bilateral Trade

In 2023, ASEAN and India completed 31 years of cordial relations. Trade has remained an important pillar of India-ASEAN partnership over the years. India has an FTA with ASEAN popularly known as AIFTA; it was signed in 2009 and came into effect in 2010. Subsequent to the implementation of AIFTA, India's imports from ASEAN have increased from US\$ 29.6 billion in 2010 to US\$ 89.3 billion in 2022, recording a staggering growth of 201.7%. On the other hand, exports from India to ASEAN have increased from US\$ 23.0 billion in 2010 to US\$ 44 billion in 2022, witnessing a growth of 91.3%.

Consequently, India's trade deficit with ASEAN has increased from marginal US\$ 6.6 billion in 2010 to US\$ 45.3 billion in 2022, logging an increase of more than six times. According to a report by ASEAN-India Council of RIS, India has placed 11% (1297 tariff lines) of the goods traded with ASEAN under exclusion list putting those goods out of the purview of any tariff reduction/elimination. ASEAN collectively has subjected around 9000 tariff lines to its exclusion criteria from any tariff reduction/elimination.

Other than the imbalances in tariff reduction offered by India and ASEAN in the AIFTA, another major point of contention have been the Rules of Origin (ROO) regulations. Currently under AIFTA, there is dual requirement of having:

- a minimum regional value addition of 35%; and
- a change in tariff subheading as stipulated in AITIGA.

The dual criteria makes the exporter submit additional documentation without really tightening the norm, resulting into procedural delays and consequent reduction in incentive to trade. ASEAN has offered comparatively lenient ROO regulations to China under the ASEAN-China FTA, there is only a single criteria of a minimum value addition set at 40%.

Another major point of concern has been the increasing number of Non-Tariff Measures (NTMs), leading to rise in asymmetries in trade. ASEAN countries have increasingly imposed NTMs on exports of agriculture products, textiles, base metals and electrical and machinery equipment (AIC, 2019).

For instance, Indian exporters of agricultural commodities to ASEAN face a number of sanitary and phytosanitary (SPS) measures and similar is true for ASEAN commodities exported to India. Further, testing and certification requirements inhibit the growth of trade. As much as 50% of the non-tariff measures imposed by ASEAN are SPS measures. The quality certification and testing requirements hurt mostly the medium, small and micro enterprises (MSMEs).

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Indian automobile manufacturers and exporters face technical barriers in exporting to ASEAN countries. Additional taxes on automobile products make it hard for Indian exporters to access and sustain in several ASEAN markets such as Singapore where technical regulations are strict.

There are also barriers imposed individually by ASEAN Member States (AMS), some of the barriers imposed by selected AMS includes:<sup>5</sup>

**Indonesia:** Indonesian importers are required to comply with numerous and overlapping import licensing requirements that impede market access. The Ministry of Trade (MOT), Government of Indonesia, requires all importers to obtain an import license as either an importer of goods for further distribution (API-U) or as an importer for their own manufacturing (API-P), but importers are not permitted to obtain both types of licenses. An API-P import license allows companies to import finished products for market testing, after sales service purposes, or for “completing a product line”, as long as the goods are new, consistent with the company’s business license, and meet import requirements. Under Government Regulation (GR) 29/2021, importers must also obtain a business identification number (NIB) through the Online Single Submission, a new online processing system intended to streamline business license issuance. A NIB can also serve as a valid import license.

**Malaysia:** Malaysia imposes import restrictions on automobiles under the Malaysian National Automotive Policy (NAP), which makes a fundamental distinction between “national” cars (e.g., domestic automakers Proton and Perodua) and “non-national” cars, which include other vehicles produced or assembled in Malaysia, as well as imports. The Malaysian system of “national approved permits” (NAPs) confers on permit holders the right to import and distribute cars and motorcycles. The NAP system is administered in an ambiguous manner and is used to implement a cap on the total number of vehicles that can be imported in a given year, currently set at 10% of the domestic market. In addition, Malaysia applies high tariffs in the automobile sector and has traffic restrictions and noise standards that affect the usage of large motorcycles.

**Vietnam:** Vietnam prohibits the commercial importation of some products, including certain children’s toys, second-hand consumer goods, used parts for vehicles, used internal combustion engines of less than 30 horsepower, certain encryption devices and encryption software, refurbished medical devices, and certain cultural products. A recent regulation requires imported goods in Vietnam to have a label in Vietnamese added by merchants. The updated regulation requires significantly more information to appear on all labels and also imposes a range of additional specific requirements that vary depending on the product category. Exporters have reported challenges entering the Vietnam market due to uncertainty and inconsistency in product classifications, which make it difficult for importers to comply with labelling requirements.

**Thailand:** Despite Thailand’s 20-year Alternative Energy Development Plan (2018-2037), which aims to increase biofuels consumption, Thailand restricts the import of biofuels intended for fuel use. Fuel ethanol imports require approval and issuance of permits by Thailand’s Ministry of Energy, but to date the ministry has not issued any approvals or permits. Thailand originally aimed to phase out premium gasoline containing 10% ethanol blends (Octane 91 E10) by 2018 and octane 95 E10 E85 between 2023 and 2027, with the intention of making 20% ethanol blends (E20) the primary gasohol. However, concerns over sufficient feedstock availability in Thailand has repeatedly delayed the full transition from E10 to E20. In Thailand, import licenses are required for the importation of many items, including: wood, petroleum, industrial machinery, textiles,

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<sup>5</sup> United States Trade Representative

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pharmaceuticals, cosmetics, firearms and ammunition, and food and agricultural items including plants, seeds, processed meats, and salt. In some cases, imports of certain items not requiring licenses are subject to extra fees and certificate of origin requirements. Additionally, a number of products are subject to import controls under miscellaneous laws. Thailand imposes domestic purchase requirements on imports of several products subject to tariff-rate quotas (TRQs), including coffee, tea, potatoes, corn, soybeans, and soybean meal. Thailand also imposes a domestic purchase requirement on imports of feed wheat, which is not subject to a TRQ.

**Philippines:** The Philippine Department of Agriculture (DA) regularly uses the Certificate of Necessity to Import (CNI) and/or the Sanitary-Phytosanitary Import Clearance (SPSIC) system to enact unscheduled quantitative restrictions to increase prices of sensitive agricultural and fishery products, especially during and near harvest periods. The DA requires that importers obtain an import permit, known as a SPSIC, and transmit the permit to the exporter prior to shipment of any agricultural product. Each import permit is valid for only one shipment and has limited validity periods of 15 to 90 days, depending on the commodity. Requiring one SPSIC per shipment with limited validity periods adds costs, complicates the timing of exports, and prevents the rerouting to the Philippines of products intended for other markets but not sold there for commercial reasons. It also prevents an exporter from reselling an imported product if the importer refuses to accept delivery or abandons the shipment.

Other than the above-mentioned barriers, there are also barriers imposed by other AMS which hamper the entry of imports in the region. The following section covers the existing tariff barriers faced by India in comparison to the major trading partners of ASEAN.

## ASEAN's Major Trading Partners

China and South Korea are top two import sources for ASEAN accounting for around 32% of ASEAN's total imports amounting to US\$ 601.7 billion in 2022. ASEAN has a FTA with both China and South Korea, the FTAs came into effect in 2010. Post the FTAs came into effect, the merchandise imports of ASEAN from China increased by 263.8% from US\$ 126.7 billion in 2010 to US\$ 460.9 billion in 2022. In case of South Korea also ASEAN's imports have increased by 146.2% to US\$ 140.8 billion from US\$ 57.2 billion in 2010. After the implementation of AIFTA, ASEAN's imports from India have increased moderately compared to China and South Korea, increasing from US\$ 19.8 billion in 2010 to US\$ 41.2 billion in 2022<sup>6</sup>.

However, an analysis of India's trade deficit with ASEAN as compared to the trade deficit of China and South Korea with ASEAN over the years after FTA implementation, is of greater significance. As highlighted earlier, India has remained a net importer of merchandise with the AIFTA aggregation, with a constant widening of trade deficit during the last ten years, increasing from US\$ 4.4 billion in 2013 to US\$ 45.3 billion in 2022. The trade balance was primarily weighed down because of high imports of coal, crude palm oil, and petroleum oils. The highest deficit was noted with Indonesia, arising mainly due to the imports of crude palm oil, followed by Singapore, Malaysia, Thailand, and Vietnam. On the other hand, in case of China and South Korea, trade balance has been largely in favour of ASEAN's partner countries with China witnessing a surplus of US\$ 139.6 billion in 2022 and a surplus of US\$ 57.6 billion being experienced by South Korea during the same year.

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<sup>6</sup> Trade figures have been fetched from ITC TradeMap Database with ASEAN being the Importer and the partner countries as Exporter

Overall, the five major importing countries in ASEAN are Singapore, Vietnam, Thailand, Malaysia and Indonesia with a combined share of 76.2% in the bloc's total imports. India as an exporter, has a marginal share in total imports of the countries as compared to their major trading partners.

For a detailed understanding of the difference in the tariff rates imposed by the aforementioned five major importers of ASEAN, a comparative analysis is undertaken of their respective Effectively Applied Tariff (AHS) rates corresponding to the FTA in force with India, along with that signed with China and South Korea, the bloc's major import sources. According to World Integrated Trade Solution (WITS), the AHS is the actual tariff imposed upon the exporting country - the lowest available tariff. Such an analysis will provide a better understanding of the existing differences in market access for the major competitors in the ASEAN region. Considering ASEAN's largest importing country, Singapore, is a majorly open economy that imposed a simple average tariff of 0.08% across all products between 2017-2021 and the share of its duty-free tariff line was 99.95% in the same period, it is excluded from the analysis undertaken in this study.<sup>7</sup>

Thus, the AHS imposed by Vietnam, Thailand, Malaysia and Indonesia, on India, China and South Korea in accordance with their respective FTA is analysed for the latest year for which data is available. It is also noteworthy here that India holds the largest trade deficit in ASEAN with Indonesia amounting to US\$ 18.8 billion in 2022.

## Tariff on Imports by Vietnam

**Table 5.1** disintegrates the simple average of the effectively applied tariff (AHS) faced by India on exporting its products to Vietnam. There are 1,610 categories of products (at 6-digit HS code) covering 3,185 tariff lines that face an AHS rate of 0%, which amounted to the total imports of US\$ 2,992.1 million in 2020. This corresponds to over 66.8% of the total imports of Vietnam from India in 2020.

**Table 5.1: Effectively Applied Tariff on Vietnam's Imports from India**

Effectively Applied Tariff Rates in 2021 (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	1,610	3,185	2,992.1	66.8
1-5	105	394	442.8	9.9
5-10	324	1,041	550.0	12.3
10-20	137	671	389.6	8.7
20-30	85	215	51.2	1.1
≥ 30	27	169	46.0	1.0
Not Defined	1	-	5.9	0.1
<b>Total</b>	<b>2,289</b>	<b>5,675</b>	<b>4,477.6</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

There are 105 product categories covering 394 tariff lines, under the 1-5% AHS rate, which corresponds to over 9.9% of the total imports in 2020, amounting to US\$ 442.8 million. There are 324 categories of products (at 6-digit HS code) covering 1,041 tariff lines that face an AHS of range 5-10%, amounting to imports worth

<sup>7</sup> World Integrated Trade Solution (WITS) – Singapore Trade Summary 2021 Data

US\$ 550 million in 2020. These products make up over 12.3% of the total imports of Vietnam from India in the same year. Cumulatively, 9.8% of Vietnam's imports from India faces AHS between 10-30%. Lastly, 27 product categories covering 169 tariff lines face effectively applied tariff of greater than or equal to 30%, with the total import share of 1% in 2020. There is one product category for which tariff has not been defined.

**Table 5.2** disintegrates the simple average AHS faced by China on exporting its products to Vietnam. At the 6-digit HS code level, there are 3,912 categories of products covering 7,851 tariff lines that face an AHS rate of 0%. This amounts to total imports of US\$ 73,969 million in 2020, corresponding to over 87.9% of the total imports of Vietnam from China in 2020.

Under the 1-5% AHS rate slab, there are 48 product categories covering 375 tariff lines which corresponds to over 4.7% of the total imports in 2020, amounting to US\$ 3,922.7 million. There are 205 categories of products (at 6-digit HS code) covering 380 tariff lines that has an AHS rate of 5-10%, which amounted to the total imports of US\$ 5,252.2 million in 2020 with a share of over 6.2% of the total imports of Vietnam from China in 2020. Cumulatively, 0.7% of Vietnam's imports from China face AHS rate between 10-30%. Further on, 35 product categories covering 363 tariff lines face AHS greater than or equal to 30% accounting for the total import share of 0.1% in 2020. There is one product category for which tariff has not been defined.

**Table 5.2: Effectively Applied Tariff on Vietnam's Imports from China**

Effectively Applied Tariff Rates in 2021 (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	3,912	7,851	73,969.0	87.9
1-5	48	375	3,922.7	4.7
5-10	205	380	5,252.2	6.2
10-20	38	124	451.6	0.5
20-30	20	91	177.1	0.2
≥ 30	35	363	98.6	0.1
Not Defined	1	-	309.9	0.4
<b>Total</b>	<b>4,259</b>	<b>9,184</b>	<b>84,181.0</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

**Table 5.3** disintegrates the simple average of the AHS faced by South Korea on exporting its products to Vietnam. At the 6-digit HS code level, there are 3,100 categories of products covering 6,131 tariff lines that are imported duty-free, that is, face AHS of 0%. This category of imports products amount to US\$ 41,805.3 million in 2020, corresponding to over 89.2% of the total imports of Vietnam from South Korea that year.

For the AHS range of 1-5%, there are 142 product categories covering 911 tariff lines which make up over 5.8% of the total imports in 2020. This amounts to US\$ 2,696.2 million. There are 116 categories of products (at 6-digit HS code) covering 363 tariff lines facing AHS rate of 5-10%, which amounted to the total imports of US\$ 783.5 million in 2020 with a share of 1.7% of the total imports of Vietnam from South Korea in 2020. Cumulatively, 2.4% of Vietnam's imports from South Korea face AHS rates between 10-30%. Further on, 24 product categories covering 223 tariff lines see AHS rates greater than or equal to 30%, with the total import share of 0.05% in 2020. Lastly, there is one product category for which tariff has not been defined, accounting for 2.5% of Vietnam's imports from South Korea in that year.



**Table 5.3: Effectively Applied Tariff on Vietnam's Imports from South Korea**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	3,100	6,131	41,805.3	89.2
1-5	142	911	2,696.2	5.8
5-10	116	363	783.5	1.7
10-20	33	178	317.8	0.7
20-30	19	70	64.7	0.1
≥ 30	24	223	21.7	0.05
Not Defined	1	-	1,160.4	2.5
<b>Total</b>	<b>3,435</b>	<b>7,876</b>	<b>46,850.0</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

## Tariff on Imports by Thailand

**Table 5.4** disintegrates the simple average of the AHS faced by India on exporting its products to Thailand. At the 6-digit HS code level, there are 2,117 categories of products covering 4,039 tariff lines that are imported at an AHS of 0%. This amounts to imports worth US\$ 2,587.5 million in 2020, corresponding to over 60.3% of the total imports of Thailand from India in 2020.

**Table 5.4: Effectively Applied Tariff on Thailand's Imports from India**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	2,117	4,039	2,587.5	60.3
1-5	136	620	293.8	6.9
5-10	451	1,065	605.4	14.1
10-20	185	519	480.3	11.2
20-30	87	224	123.9	2.9
≥ 30	164	596	130.6	3.0
Not Defined	67	86	66.4	1.5
<b>Total</b>	<b>3,207</b>	<b>7,149</b>	<b>4,288.0</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

There are 136 product categories covering 620 tariff lines, under the 1-5% AHS rate, which corresponds to over 6.9% of the total imports in 2020, amounting to US\$ 293.8 million. Next, there are 451 categories of products covering 1,065 tariff lines that face AHS rate of 5-10%, amounting to the total imports of US\$ 605.4 million in 2020. This corresponds to over 14.1% of the total imports of Thailand from India in 2020. There are 14.1% of Malaysia's imports from India that see an AHS rate of 10-20%. For the AHS range of 20-30%, there are 87 categories of products covering 224 tariff lines amounting to imports worth US\$ 123.9 million in 2020, accounting for 2.9% of the total imports of Thailand from India in 2020.

Lastly, 164 product categories covering 596 tariff lines face AHS that is greater than or equal to 30%, with the total import share of around 3% in 2020. There are 67 product categories covering 86 tariff lines for which tariff has not been defined, accounting for over 1.5% of Thailand's imports from India.

**Table 5.5** disintegrates the simple average of the AHS faced by China on exporting its products to Thailand. At 6-digit HS code level, there are 4,084 categories of products covering 7,861 tariff lines that has AHS rate of 0%. This amounted to imports worth US\$ 42,947.7 million in 2020, with import share of 86.2% of the total imports of Thailand from China in 2020.

There are 37 product categories covering 206 tariff lines, under the 1-5% AHS rate bracket, which corresponds to over 4.7% of the total imports in 2020, amounting to US\$ 2,345.4 million. There are 177 categories of products covering 556 tariff lines that face AHS rate between 5-10%, which amounted to the total imports of US\$ 3,511 million in 2020, and this corresponds to over 7% of the total imports of Thailand from China in 2020. Cumulatively, 1.2% of Malaysia's imports from China are facing AHS rate of 10-30%, corresponding to imports of Thailand from India in 2020, amounting to US\$ 582.4 million.

Furthermore, 44 product categories covering 313 tariff lines face AHS rates that are greater than or equal to 30% with the total import share of around 0.5% in 2020. There are 12 product categories covering 26 tariff lines, for which tariff has not been defined, accounting for over 0.4% of Thailand's imports from China.

**Table 5.5: Effectively Applied Tariff on Thailand's Imports from China**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	4,084	7,861	42,947.7	86.2
1-5	37	206	2,345.4	4.7
5-10	177	556	3,511.0	7.0
10-20	15	137	391.7	0.8
20-30	3	29	190.7	0.4
≥ 30	44	313	271.4	0.5
Not Defined	12	26	191.0	0.4
<b>Total</b>	<b>4,372</b>	<b>9,128</b>	<b>49,849.0</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

Table 5.6 disintegrates the simple average of the AHS faced by South Korea on exporting its products to Thailand. There are 2,999 categories of products (at 6-digit HS code) covering 6,271 tariff lines that has AHS rate of 0%, which amounted to the total imports of US\$ 6,824.5 million in 2020, and accounting for 89.1% of the total imports of Thailand from South Korea in 2020.

There are 25 product categories covering 147 tariff lines, under the AHS range of 1-5%. These products make up over 0.8% of the total imports in 2020, worth US\$ 60.8 million. Next, there are 124 categories of products covering 367 tariff lines that face AHS rates of 5-10%, which amounted to the total imports of US\$ 413.8 million in 2020, and this corresponds to over 5.4% of the total imports of Thailand from South Korea for the year. Cumulatively, 1.3% of Malaysia's imports from China are facing AHS rate of 10-30%. This corresponds to US\$ 100.8 million worth of imports from India in 2020.

Lastly, 25 product categories covering 196 tariff lines face AHS greater than or equal to 30% with the total import share of around 0.6% in 2020. There is one product category for which tariff has not been defined, accounting for over 2.8% of Thailand's imports from South Korea.

**Table 5.6: Effectively Applied Tariff on Thailand's Imports from South Korea**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	2,999	6,271	6,824.5	89.1
1-5	25	147	60.8	0.8
5-10	124	367	413.8	5.4
10-20	11	177	97.1	1.3
20-30	7	42	3.7	0.0
≥ 30	25	196	42.7	0.6
Not Defined	1	-	218.1	2.8
<b>Total</b>	<b>3,192</b>	<b>7,200</b>	<b>7,660.7</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

## Tariff on Imports by Malaysia

Table 5.7 disintegrates the simple average of the AHS faced by India on exporting its products to Malaysia. There are 1,688 categories of products (at 6-digit HS code) covering 3,200 tariff lines that face AHS rate of 0%, which amounted to the total imports of US\$ 3,331.3 million in 2020, and this corresponds to over 56.1% of the total imports of Malaysia from India in 2020.

**Table 5.7: Effectively Applied Tariff on Malaysia's Imports from India**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	1,688	3,200	3,313.3	56.1
1-5	80	442	98.9	1.7
5-10	290	842	304.3	5.2
10-20	355	1,234	401.0	6.8
20-30	207	635	62.9	1.1
≥ 30	68	142	229.6	3.9
Not Defined	15	43	1,496.5	25.3
<b>Total</b>	<b>2,703</b>	<b>6,538</b>	<b>5,907.0</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

There are 80 product categories covering 442 tariff lines, under the 1-5% AHS rate, which corresponds to over 1.7% of the total imports in 2020, amounting to US\$ 98.9 million. There are 290 categories of products (at 6-digit HS code) covering 842 tariff lines that see AHS rates of 5-10%, which amounted to the total imports of US\$ 304.3 million in 2020, and this corresponds to over 5.2% of the total imports of Malaysia from India in 2020. Cumulatively, 7.9% of Malaysia's imports from India faces AHS rate of between 10-30%. Next, 68

product categories covering 142 tariff lines face AHS of greater than or equal to 30% with the total import share of around 3.9% in 2020. There are 15 product categories covering 43 tariff lines, for which tariff has not been defined, accounting for over 25.3% of Malaysia's imports from India. Under the non-defined tariff category, maximum imports are for petroleum oils and oils obtained from bituminous minerals (excluding crude) (HS-271000), amounting to US\$ 1,492 million.

**Table 5.8** disintegrates the simple average of the AHS faced by China on exporting its products to Malaysia. It is the effectively applied tariff that the Chinese exporters face while exporting to Malaysia. There are 2,580 categories of products (at 6-digit HS code) covering 4,569 tariff lines that has effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 34,797 million in 2020, and this corresponds to over 63.8% of the total imports of Malaysia from China.

For the 1-5% AHS rate, there are 108 product categories covering 527 tariff lines which correspond to over 2.3% of the total imports in 2020, amounting to US\$ 1,271.3 million. There are 446 categories of products (at 6-digit HS code) covering 1,140 tariff lines that see AHS rates between 5-10%, amounting to the total imports of US\$ 4,477.7 million in 2020, and this corresponds to over 8.2% of the total imports of Malaysia from China in 2020. Cumulatively, 17.2% of Malaysia's imports from China faces AHS rate of between 10-30%. Next, 116 product categories that cover 217 tariff lines, face an AHS of greater than or equal to 30%, with an import share of around 3% in 2020. There are 20 product categories covering 69 tariff lines, for which tariff has not been defined, accounting for over 5.4% of Malaysia's imports from China. Similar to the case of Malaysia's imports from India, under the non-defined tariff category, maximum imports are for petroleum oils and oils obtained from bituminous minerals (excluding crude) (HS-271000), amounting to US\$ 2,929.3 million.

**Table 5.8: Effectively Applied Tariff on Malaysia's Imports from China**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	2,580	4,569	34,797.0	63.8
1-5	108	527	1,271.3	2.3
5-10	446	1,140	4,477.7	8.2
10-20	627	1,884	4,936.2	9.1
20-30	388	1,235	4,435.4	8.1
≥ 30	116	217	1,645.4	3.0
Not Defined	20	69	2,949.0	5.4
<b>Total</b>	<b>4,285</b>	<b>9,641</b>	<b>54,512.0</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

**Table 5.9** disintegrates the simple average of the AHS faced by South Korea on exporting its products to Malaysia. There are 1,435 categories of products (at 6-digit HS code) covering 2,846 tariff lines that has AHS rate of 0%, which amounted to the total imports of US\$ 6,940.8 million in 2020. This corresponds to over 57.6% of the total imports of Malaysia from South Korea in 2020.

For the AHS range of 1-5%, there are 76 product categories covering 423 tariff lines, accounting for over 1.8% of the total imports in 2020, worth US\$ 214.1 million. There are 301 categories of products (at 6-digit HS code) covering 889 tariff lines that face AHS rates of 5-10%. These products amount to US\$ 741.8 million,

corresponding to over 6.2% of the total imports of Malaysia from South Korea in 2020. Cumulatively, 12.3% of Malaysia's imports from South Korea face AHS rate between 10-30%. Further on, 63 product categories covering 133 tariff lines face AHS that is greater than or equal to 30%, with total import share of around 0.3% in 2020. There are 14 product categories covering 49 tariff lines, for which tariff has not been defined, accounting for over 21.8% of Malaysia's imports from South Korea. Again, like in the case of Malaysia's imports from India and China, under the non-defined tariff category, maximum imports are for petroleum oils and oils obtained from bituminous minerals (excluding crude) (HS-271000), amounting to US\$ 2,625.4 million.

**Table 5.9: Effectively Applied Tariff on Malaysia's Imports from South Korea**

Effectively Applied Tariff Rates in 2021(%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2020 (US\$ million)	Share in Total Imports (%)
0	1,435	2,846	6,940.8	57.6
1-5	76	423	214.1	1.8
5-10	301	889	741.8	6.2
10-20	339	1,322	1,149.3	9.5
20-30	225	739	334.0	2.8
≥ 30	63	133	40.1	0.3
Not Defined	14	49	2,630.5	21.8
<b>Total</b>	<b>2,453</b>	<b>6,401</b>	<b>12,051</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

## Tariff on Imports by Indonesia

**Table 5.10** disintegrates the simple average of the AHS faced by India while exporting to Indonesia. At 6-digit HS Code level, around 40% of Indonesia's imports from India in 2021 faced an AHS of 0%, that is, they were duty-free imports, covering 1121 products and 2027 tariff lines, amounting to US\$ 3.1 billion.

**Table 5.10: Effectively Applied Tariff on Indonesia's Imports from India**

Effectively Applied Tariff Rates in 2021 (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2021 (US\$ million)	Share in Total Imports (%)
0	1121	2027	3060.8	40.0
01 to 05	819	2256	1734.2	22.6
05 to 10	800	1810	920.3	12.0
10 to 20	51	161	87.3	1.1
20-30	139	227	24.6	0.3
≥ 30	4	35	2.1	0.0
Not Defined	6	-	1829.0	23.9
<b>Total</b>	<b>2940</b>	<b>6516</b>	<b>7658.5</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

Almost 35% of Indonesia's total imports from India in 2021, covering 1619 products and 4066 tariff lines, faced an AHS within the range of 1-10%. Further on, around 2% of such imports were in the range of 10-30% AHS, containing 190 products and 388 tariff lines. Negligible share of imports from India faces high rates of AHS greater than or equal to 30%. However, the second largest share of imports from India in 2021 – at almost 24% - shows undefined AHS rates. Under this category of non-defined tariffs, the most imported product of Indonesia from India is petroleum oils (HS-271000) amounting to US\$ 885.5 million.

**Table 5.11** disintegrates the simple average of the AHS faced by China while exporting to Indonesia. At 6-digit HS Code level, 87% of Indonesia's imports from China in 2021 faced an AHS of 0%. These duty-free imports contain 3743 products and cover 7090 tariff lines, amounting to US\$ 48.9 billion.

Next, 11.4% of Indonesia's imports from China in 2021 faced an AHS of range 1-10%, covering 472 products and 1376 tariff lines. Similarly, for around 0.7% of these imports from China, Indonesia imposed an AHS within the range of 10-30% and above. This range of tariffs cover US\$ 396.1 million worth of imports, covering 49 products and 508 tariff lines. Under the undefined tariff category, 5 products worth US\$ 464.9 million are covered, making up a share of 0.8% of total imports from China in 2021. Similar to India, here too, petroleum oils (HS-271000) make the maximum imports for the undefined tariff category amounting to US\$ 464.0 million.

**Table 5.11: Effectively Applied Tariff on Indonesia's Imports from China**

Effectively Applied Tariff Rates in 2021 (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2021 (US\$ million)	Share in Total Imports (%)
0	3743	7090	48936.7	87.0
01 to 05	49	233	1058.9	1.9
05 to 10	423	1143	5369.3	9.5
10 to 20	16	57	285.1	0.5
20-30	13	146	21.9	0.0
≥ 30	20	305	89.1	0.2
Not Defined	5	-	464.9	0.8
<b>Total</b>	<b>4269</b>	<b>8974</b>	<b>56225.9</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

**Table 5.12** disintegrates the simple average of the effectively applied tariff (AHS) faced by South Korea while exporting to Indonesia. At 6-digit HS Code level, around 78% of Indonesia's imports from South Korea in 2021 faced an AHS of 0%. These duty-free imports contain 2819 products and cover 5720 tariff lines, amounting to US\$ 7.3 billion.

Next, around 16% of Indonesia's total imports from South Korea in 2021, faced an AHS of 1-10%. This range of tariffs covered 447 products and 1499 tariff lines, amounting to US\$ 1.5 billion. Further on, only approximately 1% of Indonesia's total imports from South Korea in 2021 fell into the AHS bracket of 10-30% and above. The tariff range covered 47 products and 132 tariff lines with imports amounting to US\$ 80.3 million. Lastly, the undefined tariff bracket covers 3 products from South Korea worth US\$ 492.6 million with a share of 5.2%, the most traded product being petroleum oils (HS-271000) amounting to US\$ 489.1 million.

**Table 5.12: Effectively Applied Tariff on Indonesia's Imports from South Korea**

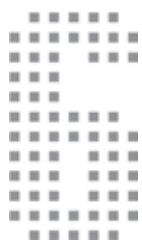
Effectively Applied Tariff Rates in 2021 (%)	No. of Products (at 6-digit HS Code)	Total Number of Tariff Lines	Total Imports in 2021 (US\$ million)	Share in Total Imports (%)
0	2819	5720	7344.0	77.9
01 to 05	102	706	581.3	6.2
05 to 10	345	793	928.7	9.9
10 to 20	21	46	15.9	0.2
20-30	19	29	3.3	0.0
≥ 30	7	57	61.0	0.6
Not Defined	3	-	492.6	5.2
<b>Total</b>	<b>3316</b>	<b>7351</b>	<b>9426.8</b>	<b>100.0</b>

Source: WITS database and India Exim Bank Analysis

From the comparative tariff analysis, it can be concluded that among the traded commodities with ASEAN, the number of tariff lines under the duty-free criteria i.e. 0% in case of China and South Korea are significantly larger as compared to India. For instance, there are 1,610 categories of products (at 6-digit HS code) covering 3,185 tariff lines imported by Vietnam from India that face an AHS rate of 0%, amounting to US\$ 2,992.1 million worth of imports in 2020, corresponding to a share of 66.8% of the total imports of Vietnam from India in the year.

However, in case of Vietnam's imports from South Korea, there are 3,100 categories of products covering 6,131 tariff lines that are imported duty-free, that is, face AHS of 0%. This category of imports products amounts to US\$ 41,805.3 million in 2020, corresponding to over 89.2% of the total imports of Vietnam from South Korea during the year. Through a detailed examination of disaggregated comparative tariff data, a notable contrast has been identified in the constrained market entry conditions stemming from lower tariff concessions faced by India, in comparison to those encountered by China and South Korea. This trend is evident in the context of India's exports to countries such as Vietnam, Indonesia, Thailand, and Malaysia.

With India targeting to achieve merchandise exports of US\$ 1 trillion by 2030, the need to keep in check the increasing trade deficit between India and ASEAN is highlighted. In order to address this issue, trade should be promoted in goods, where we not only have potential but also possess a Revealed Comparative Advantage (RCA) so as to ensure an efficient outcome. Trade in advantageous goods should be promoted as identified through competitiveness analysis in order to deal with the mounting deficit. Additionally with the upcoming review of AFTA starting from February 2024, India could negotiate with the objective of securing greater market access while utilising product specific rules and trade remedies, making the trade agreement mutually beneficial for both the counterparts.



## India Exim Bank – Supporting Developmental Endeavours in ASEAN

The Export-Import Bank of India (India Exim Bank) was set up under an Act of Parliament in 1981 and commenced operations in 1982. The Bank was set up for providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade. In its endeavour to promote India's international trade, India Exim Bank's vision has evolved from financing, facilitating and promoting trade and investments, to a conscious and systematic effort at creating export capabilities. Exim Bank today seeks to develop commercially viable business relationships with externally oriented companies.

In line with the Government of India's focus, ASEAN has been a focus region for India Exim Bank, and thus a critical component of its strategy to promote and support two-way trade and investment flows. India Exim Bank's commitment towards building relationships with the ASEAN region is reflected in the various activities and programmes, which Exim Bank has set in place. India Exim Bank plays a critical role and is committed towards supporting GOI's initiatives in promoting strategic partnerships with countries in different regions and especially those in ASEAN.

This is achieved through continuous engagement with partner countries at bilateral, regional and multilateral levels, and financing and supporting of projects of national importance, thereby strengthening India's role as a development partner in the region. India Exim Bank has representative offices in two ASEAN countries namely Myanmar and Singapore, which play a key role in facilitating economic cooperation with the region, and are closely associated with several of the Bank's initiatives.

- **Lines of Credit**

To promote bilateral and regional commercial relations, India Exim Bank extends Lines of Credit (LOCs) to governments, parastatal organizations, financial institutions, commercial banks and regional development banks to support export of eligible goods on deferred payment terms. Operative LOCs covering ASEAN countries extended by India Exim Bank, at the behest of the Government of India are given in **Table 6.1**.



**Table 6.1: India Exim Bank's Operative Lines of Credit in ASEAN Countries (as on March 31, 2024)**

<b>Borrower (No. of LOCs)</b>	<b>Amount of Credit (US\$ mn)</b>	<b>Key Sectors/Projects covered</b>
Cambodia (3)	87.1	Electricity Transmission Line; Water Development Projects
Lao PDR (4)	153.8	Electricity Transmission Line project; Irrigation Project; Hydropower Projects
Myanma Foreign Trade Bank, Myanmar (8)	412.2	Railway Projects; Refinery Projects; Manufacturing Plant Projects; Transmission Lines; Irrigation System; Petrochemicals; Microwave Radio Link Project
Vietnam (4)	191.5	Hydro Power Project; Exports of Textile Machinery and Equipment

### • **Supporting Project Exports**

India Exim Bank extends both funded and non-funded facilities for overseas turnkey projects, civil construction, supplies as well as technical and consultancy service contracts across various sectors of the economy. India Exim Bank has financed several Indian project exporters in the region in various sectors including, among others, water resources development, power projects, irrigation, gas pipeline and hydropower projects in countries including Malaysia, Singapore, Indonesia, Thailand, Myanmar and Vietnam. Such projects executed by assistance received from India Exim Bank, have contributed to the host country's developmental endeavours and have assisted in narrowing developmental gaps in such countries.

### • **India Exim Bank as International Consultant**

India Exim Bank is well positioned to share its experience and expertise in the fields of capacity creation, institutional strengthening, export development and export capability creation. The Bank is thus, well placed to provide a range of technical assistance in these fields. India Exim Bank has been engaged in consultancy assignments in association with select institutions in Southeast Asia region such as:

- Study on Regional Cooperation in Export Finance and Export Credit Guarantees for the United Nations Economic and Social Commission for Asia and Pacific (UNESCAP) (includes CLMV countries);
- Strategy paper for SAARC Development Fund to promote intra-regional projects in the South Asian Region (including Myanmar);
- Expertise provided on developing a National Export Strategy of Myanmar; and
- Designing Export Marketing Seminars for SMEs in Vietnam.

### • **Finance for Joint Ventures**

To support Indian companies in their endeavour to globalise their operations, India Exim Bank operates a programme to support overseas investments by Indian companies through JVs/ WOSs. Such supports include loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoter, to set up such ventures overseas. As on March 31, 2024, India Exim Bank has sanctioned ₹ 129 billion to over 92 Indian companies for setting up ventures in Indonesia, Malaysia, Myanmar, Singapore, Thailand, Philippines and Vietnam in diversified sectors.

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- **Asian Exim Banks Forum**

The Asian Exim Banks Forum set up in 1996 is a point in case and a positive initiative in mutually rewarding association of India and ASEAN countries which aims to enhance economic cooperation and forge stronger linkages among its member institutions, thereby fostering a long-term relationship within the Asian Exim Banks community, comprising member institutions from countries such as Australia, China, India, Indonesia, Japan, South Korea, Malaysia, Philippines, Thailand, and Vietnam. Member institutions in AEBF strive to explore opportunities for increased cooperation with each other with a view to enhancing trade and investment relations among the Asian economies. Creating intra-Asian synergy in trade relations, driven by India-ASEAN in particular, could play an important role in reinforcing growth momentum in the region.

- **Representative Offices**

India Exim Bank has two representative offices in the ASEAN region - Singapore and Yangon. These offices seek to establish and maintain relationships with multilateral agencies, regional development institutions, trade and investment promotion bodies, international banks, chambers of commerce, government departments and institutions in various Southeast Asian countries and identify areas of cooperation. The representative offices play a key role in facilitating India's economic cooperation with ASEAN countries while keeping close coordination with Indian Missions in the region. The Bank's Representative offices project the Bank's capabilities in financing India's international trade and investment while also keeping the Bank abreast of the developments in the economic and banking/financial sectors of the Southeast Asian region.



## Way Forward and Recommendations

As highlighted in the previous chapters, India and ASEAN have enjoyed a strong socio-economic relationship, which has strengthened over the years. India's relationship with ASEAN is a key pillar of India's foreign policy and the foundation of its "Act East Policy". The upgradation of the relationship into a Strategic Partnership in 2012 was a natural progression since India became a Sectoral Partner of the ASEAN in 1992, Dialogue Partner in 1996 and Summit Level Partner in 2002. The year 2022 marked 30 years of ASEAN-India relations and was designated as ASEAN-India Friendship Year in October 2021.

There are several Ministerial and Official Level Dialogue Mechanisms between India and ASEAN, cutting across various sectors including business and trade, energy, education, digital connectivity and agriculture, among others. In recent times, the dynamic landscape of international relations has witnessed a pronounced surge in the strategic engagement between India and the member nations of ASEAN. The symbiotic relationship between India and ASEAN has entered a new epoch, with economic ties assuming a central role in shaping this evolving partnership. This collaborative endeavour, marked by mutual economic interests, geopolitical convergence, and cultural affinities, has emerged as a pivotal facet of India's foreign policy.

Against the backdrop of a rapidly changing global economic order, the study has sought to unravel the key drivers, challenges, and prospects that characterize this maturing economic alliance.

### Addressing Mounting Trade Deficit

An area of concern that needs attention is India's rising trade deficit with ASEAN over the past decade that has widened more than 10 times from US\$ 4.4 bn in 2013 to US\$ 45.3 bn in 2022, with India's exports increasing by 16.1% and imports increasing rapidly by 111.1% during the same period.

As has been highlighted earlier, there is immense potential to enhance India's trade relations with ASEAN, and in the process to correct the trade imbalance between India and ASEAN. Stronger trade is contingent upon improved institutional and trade complementarity, triggered by developed transport network including rail, road and ship network and related infrastructure to facilitate trade; efficient logistics management, including planning, implementing and controlling the effective and efficient flow of goods and services from the point of origin to the point of consumption; and reduced bureaucratic delays and paperwork involved in cross-border trade as well as streamlined customs and clearance procedures at borders to reduce delays and costs of transit.

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## ***Tariff Concessions and Addressing Trade Barriers***

With respect to tariff concessions in particular, substantial difference is observed in the share of products that are imported from these countries on duty-free basis, that is, at 0% AHS thereby reflecting the varying extent of market access provided to them. The difference in the level of complete tariff elimination undertaken by ASEAN's top importing countries for products from India, China and South Korea, is the starkest in the case of Indonesia, ASEAN's largest economy. With respect to the share of total imports that face 0% AHS in Indonesia, China stands at 87% covering 7090 tariff lines, South Korea has a share of 77.9% covering 5720 tariff lines, while India holds a substantially lower share at 40% that covers 2027 tariff lines. Also, among all ASEAN member countries, India holds the largest trade deficit with Indonesia at US\$ 18.8 billion in 2022, thereby making tariff elimination and reduction undertaken by the country worth special focus if such trade imbalances need to be corrected. In 2021, while Indonesia imported 40% of India's imports at 0% AHS covering 2027 tariff lines, India on the other hand, imported almost 64% of Indonesian products at 0% AHS that covered 3193 tariff lines.

The ongoing review of the India-ASEAN Free Trade Agreement (FTA) thus marks a pivotal moment in the trade relations between the two regions. To foster stronger ties, it is crucial to address the barriers hindering Indian exports to ASEAN, particularly in the agriculture and automobile sectors. Challenges such as non-reciprocal FTA concessions, non-tariff barriers (NTBs), import regulations, quotas, and export taxes imposed by ASEAN countries have impeded Indian exports.

For instance, the Article 8 of AITIGA only briefly covers NTMs by reiterating that such measures must adhere to the Agreement on Technical Barriers to Trade and the Agreement on the Application of Sanitary and Phytosanitary Measures of the WTO. To facilitate better trade flows, India and ASEAN could adequately review their NTMs thereby harmonising their respective national product standards and requirements along with international standards. Measures to ensure trade facilitation can be implemented including recognising the results and certifications of each other's authorised testing agencies. This can be carried out through the mutual recognition of the involved country's conformity assessment procedures. Such a mutual recognition agreement will reduce costs and delays caused by non-uniformity in the testing requirements across countries.

Moreover, the intricacies of Rules of Origin have posed a significant obstacle. As both parties engage in negotiations for the review of the India-ASEAN FTA, it is imperative to reach mutually agreeable terms. This collaborative effort is essential to elevate the bilateral relations to unprecedented heights, ensuring a more conducive environment for trade and economic cooperation.

## **Cooperation in Improving Connectivity**

There is need for further integration between ASEAN and India, in terms of geographical connectivity. Enhancing connectivity in all its dimensions - physical, institutional, digital and cultural - is at the heart of deepening ASEAN-India partnership. Enhancing air, road, maritime and inland waterways connectivity has been identified as a high priority area by India and ASEAN. Improved connectivity would be highly significant for goods as well as for people-to-people movement.

India's commitment has been reiterated under its 12-point proposal for strengthening India-ASEAN cooperation, presented by Hon'ble Prime Minister of India during the recently concluded 20<sup>th</sup> ASEAN-India Summit in September 2023. The Prime Minister mentioned about establishing multi-modal connectivity and economic corridor that links South-East Asia-India-West Asia-Europe (SEIWEC).

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It becomes more significant with the subsequent announcement of setting up of a multimodal rail, shipping and energy corridor between India and Europe via the Middle East, that is, the India-Middle East-Europe Corridor (IMEC). The announcement was made on the sidelines of the G20 summit held days after the announcement for South-East Asia-India-West Asia-Europe corridor involving ASEAN. The integration of IMEC with SEIWECC, if materialized would serve as a gateway to new markets for all the participating countries, including ASEAN.

Further, there is still scope with North-eastern India acting as a land bridge with ASEAN countries, for strengthening partnership through enhanced trade, tourism, and people-to-people contacts. As a part of the Kaladan Multi-Modal Transit project, the Sittwe Port in Myanmar became operational in May 2023. The Sittwe port connects to Paletwa in Myanmar through an inland waterway and from Paletwa to Zorinpui in Mizoram through a road component. As highlighted by the Union Minister of Ports, Shipping & Waterways, cost of transportation of goods from Kolkata to Aizwal would see drop of more than 50% in cost and time when the cargo is sent from Kolkata to Sittwe onto Paletwa and after that via road to Aizwal and the whole of Northeast India. Similarly, goods from Kolkata to Agartala would incur much lesser cost and time via this route. While the length of road from Kolkata to Agartala is around 1600 kms and takes 4 days via roadways, the Sittwe to Chittagong to Sarboom to Agartala will be done in 2 days, saving cost and time. In addition to reduction of traffic on the road, the use of marine transport will considerably bring down environmental cost of transport with drop in fossil fuel carbon emission<sup>8</sup>. Subsequently, there is a need for catching up with the 2027 deadline for completion of the 1360 kms India-Myanmar-Thailand Trilateral Highway, which when completed, will provide seamless connectivity between Moreh in India to Mae Sot in Thailand. The project is set have positive ripple effects on economic fortunes of people especially living in India's north-eastern states.

Another area which requires attention is air connectivity, out of the 10 ASEAN countries, India has direct flight connectivity with Malaysia, Myanmar, Singapore, Vietnam, Indonesia and Thailand and vice versa. Other four countries, including Cambodia and the Philippines have no direct flight. Direct air connectivity will be incidental in establishing people-to-people relations through cooperation in business and tourism.

## Cooperation in Digital Public Infrastructure

During the recently concluded India-ASEAN Summit in September 2023, India offered to share India's Digital Public Infrastructure (DPI) Stack with ASEAN partners. India's unique DPI initiatives, beginning from CoWin, which managed the world's largest vaccination programme, created digital revolution amidst of the pandemic chaos. India's indigenous initiatives such as the digital ID (Aadhaar) and payment infrastructure (UPI), have even been highlighted by the Digital Economy Working Group (DEWG) under the G20 umbrella.

India's strategy for DPI seamlessly integrates scalability, inter-operability, innovation, and cost-effectiveness. It goes beyond mere technological progress, presenting a visionary blueprint for an all-encompassing digital future that reverberates not only domestically but also on the world stage. The Indian narrative on DPI serves as a compelling example of the nation's dedication to utilizing technology for the greater good and establishing a model for other countries to emulate.

India and ASEAN have started working towards digital interaction with recent initiatives including integration of India's real-time retail payment system Unified Payments Interface (UPI) and its equivalent network in

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<sup>8</sup> <https://pib.gov.in/PressReleasePage.aspx?PRID=1922176>

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Singapore called PayNow, to enable faster remittances between the two countries at a competitive rate. Further on, there is immense scope for establishing mutually beneficial technology partnership wherein on one hand ASEAN can benefit from India's successful implementation of highly inclusive and sustainable public infrastructure stack including UPI, Jan Dhan, Aadhar, ONDC, and CoWin, among others. On the other hand, India would benefit from developing universality of India's payment interface allowing improved cross border transactions in terms of trade as well as remittances. A comprehensive integration of digital infrastructure at the bloc level would enable enhanced clearing mechanism supporting trade and providing a cushion against exchange rate fluctuations.

## **Integration into Regional Value Chains**

The recent geo-economic and political events have exposed several risks to global supply chains, including geographic concentration of production, overstretched supply chains of critical goods like medical supplies, and intermediate products and shortages of critical items due to the concentration of production.

The ASEAN region as a whole is characterized by the presence of strong production networks and has one of the highest Global Value Chain (GVC) participation indices in the world. The shares for backward and forward participation in the ASEAN countries are high in international comparison, which indicates the relatively high degree of integration of ASEAN members in GVCs. For instance, backward and forward GVC participation of China and the US in 2019 were under 10% and in large Latin-American economies such as Brazil, Argentina and Mexico, GVC participation varies between 4% and 11%, whereas the average backward GVC participation of ASEAN countries equal 27% and forward participation 25% on average<sup>9</sup>.

There exists immense potential for India's economic integration through Regional Value Chains (RVCs) in ASEAN and especially developing such RVCs in the CLMV region. The fundamental idea behind building supply chains across India and ASEAN countries would be to optimally utilize the comparative advantage each country offers at different stages of production.

RVCs can be formed between India and ASEAN countries – Brunei, Lao PDR and Myanmar (Commodity Exporters having rich natural resources) - India, the Philippines, Thailand and Vietnam (mid-high tech technology product exporters) – Singapore (high-end technology, and at highend process spectrum innovation, R&D) in various sectors. An RVC between India and ASEAN countries could lead to process upgradation (efficiency in production through reorganizing production or using superior technology), product upgradation (production of more sophisticated products), functional upgradation (acquiring new functions within a given value chain) and finally chain upgradation (integration into different value chains and GVCs) for India and ASEAN countries. India has been instrumental in facilitating investment in the ASEAN region mainly in connectivity projects. These could be strengthened by setting up funds to identify projects to develop viable and dynamic supply chains across South and Southeast Asia.

## **Developing Linkages with Investment Promotion Agencies / Chambers of Commerce**

In addition to simplifying their investment frameworks, numerous countries in ASEAN have established dedicated investment promotion agencies or Chambers of Commerce. These entities play a crucial role in promoting and facilitating the influx of foreign investment into their respective countries. They function as

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<sup>9</sup> ASEAN SMEs Integration in GVCs: Opportunities and Challenges in Response to COVID-19 © OECD 2022

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comprehensive one-stop-shops for all investment-related activities, streamlining processes and providing a centralized hub for investors to navigate and engage with the local investment environment.

Recognizing the pivotal role played by these institutions, fostering closer cooperation and linkages with investment promotion agencies is crucial for improving access to information on investment opportunities in the region. An integral part of this strategy to strengthen bilateral trade and investment relations involves efficiently disseminating pertinent information about identified potential markets, products, and sectors to Indian exporters and investors and their ASEAN counterparts.

This collaborative relationship aims to enrich awareness about potential investment areas, upcoming projects across various sectors, potential investment partners, and the specific procedures, rules, and regulations necessary for venturing into particular sectors in these countries. Additionally, it seeks to provide insights into the incentives offered to investors, thereby creating a more informed and conducive environment for mutually beneficial economic engagement.

Moreover, organizing investment promotional events in collaboration with specific investment promotion agencies would facilitate greater engagement between potential investors and the relevant authorities in targeted sectors within the region. To streamline these efforts, it would be beneficial to identify a national-level industry association or trade chamber. This organization could take on various initiatives to promote trade, including arranging Business-to-Government (B2G) and Business-to-Business (B2B) delegation visits focused on identified potential sectors.

Additionally, the association or chamber could coordinate business fairs in the target countries, providing a platform to showcase the capabilities of enterprises in both India and ASEAN. These events would not only highlight the strengths of businesses but also enable them to explore and capitalize on market opportunities within these countries. Such proactive trade promotion activities aim to foster stronger economic ties and mutual understanding between the business communities of India and ASEAN.

## **Developing Digital Trade Portals**

Further on, establishing an interactive portal, seamlessly linked with key industry and trade associations and chambers in the region, would prove invaluable in offering essential information and advisory services related to potential export and investment markets. This portal could serve as a centralized resource, maintaining a readily accessible database for potential investors and exporters in both India and the ASEAN region.

In addition, the portal could feature specialized online courses aimed at providing technical assistance and valuable advice in sectors relevant to ASEAN countries. These training programs would be a pivotal step in enhancing bilateral trade and investment by imparting crucial knowledge and skills. The interactive platform, functioning as a comprehensive information hub and educational resource, would contribute to fostering collaboration and understanding between stakeholders in the business communities of India and the ASEAN region.

## **Developing Cooperation Among MSMEs**

Furthermore, in both India and the ASEAN region, MSMEs are proving to be drivers of economic growth, contributing substantially to employment generation, and often to international trade as well. According to

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Directorate General of Commercial Intelligence and Statistics (DGCIS), the share of MSME specified products among India's exports for the year 2022-23 was 43.6% which has now increased to 45.8% in 2023-24 (up to November 2023). In ASEAN, on the other hand, there functions over 70 million MSMEs that account for 97% of all businesses in the region and employ 67% of the working population, as reported by the Asian Development Bank (ADB). The region sees 23% of its SMEs to be importing, and around 12% to be exporting, either directly or indirectly. Thus, given the growing economic contribution of such entities in both India and ASEAN, greater cooperation between MSMEs of both regions should be encouraged through various channels that facilitate greater collaboration, sharing of knowledge and skills thereby opening up business opportunities and joint ventures.

## **Strengthening Maritime Security**

Maritime security holds a significant position in the evolving relationship between India and ASEAN countries. Since the initiation of the Look East policy, India has consistently prioritized the development of a robust maritime security framework with Southeast Asian nations. With a steadfast commitment to this objective, India has aimed to unite stakeholders within the broader Asian security architecture.

As part of this initiative, India has actively engaged with ASEAN countries to enhance their capacities and capabilities. The focus has been on providing training and assistance, reflecting India's commitment to fostering collaborative efforts in maritime security. This collaborative approach underscores India's dedication to building a secure and cooperative environment in the maritime domain, aligning with the shared interests of the nations involved.

Moreover, maritime security holds paramount importance for India, primarily due to its extensive trade and commerce routes passing through the South China Sea to the East Asian region. Recognizing the geopolitical complexities of the South China Sea, India has been striving to garner support for a permanent code of conduct in the region. The draft document, currently under deliberation, requires concerted efforts to gain acceptance among the various claimants involved in the South China Sea issue. There is a pressing need for collaborative diplomacy to ensure that the proposed code of conduct becomes an agreed-upon framework, fostering stability, cooperation, and adherence to international norms in the South China Sea region.

In May 2023, India and ASEAN ushered in a new era of maritime cooperation with the landmark ASEAN-India Maritime Exercise (AIME). While India has historically leveraged its navy to foster relationships with maritime nations in the Indo-Pacific, this exercise represents a significant advancement by establishing collaborative ties with ASEAN as a bloc.

During the inaugural AIME, not only did the Indian Navy participate, but it also saw active involvement from the navies of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. This joint maritime exercise marks a heightened level of collaboration, symbolizing the commitment of both India and ASEAN nations to enhance regional security and cooperation in the Indo-Pacific.

Increased maritime cooperation will not only help the Indian Navy to expand its maritime footprint beyond traditional areas of responsibility in the Indian Ocean region, but also benefit India's defence exports with many regional states having expressed interest in acquiring Indian defence equipment. While Philippines has purchased the Indian-Russian jointly developed BrahMos Missile System, Vietnam and Indonesia are also in negotiations with New Delhi over the purchase of the anti-ship missile system.



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India and ASEAN stand to benefit significantly from establishing information-sharing mechanisms to enhance their awareness and surveillance across the expansive maritime domain they share. While initial efforts through joint exercises and coordinated patrols represent crucial steps in strengthening military-to-military maritime cooperation, there is potential for greater inter-operability through the regular implementation of such exercises. By transforming these engagements into routine practices, both parties can achieve a deeper level of coordination and effectiveness in maritime security.

To bolster the growing momentum in their collaboration, formalizing logistics access and signing white shipping agreements could prove instrumental in fostering enhanced maritime cooperation between India and ASEAN. These agreements would contribute to a more streamlined and efficient exchange of information, resources, and logistics support, thereby reinforcing the commitment to shared maritime security goals in the region.

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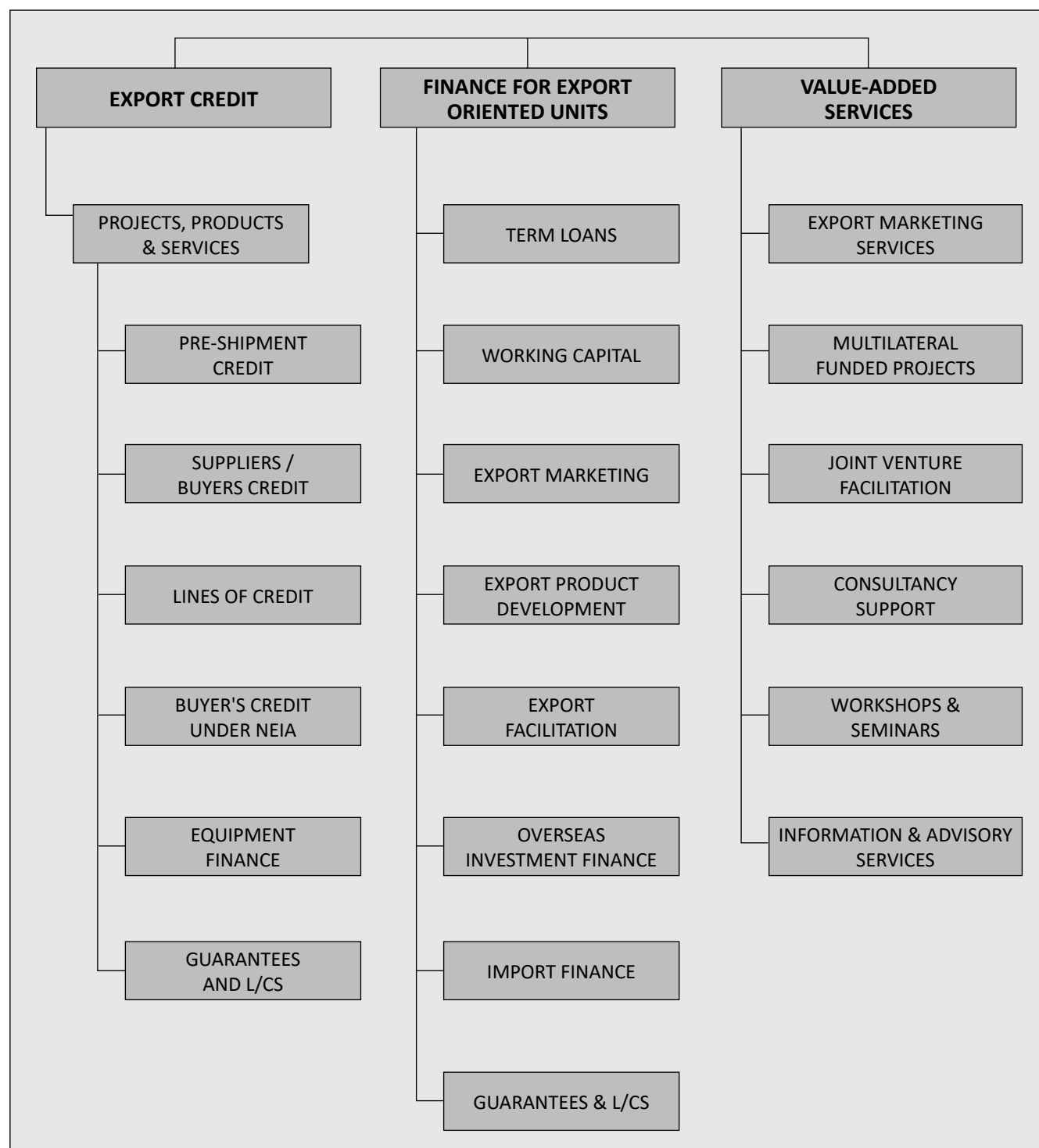
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