

STRENGTHENING ASEAN-INDIA PARTNERSHIP: TRENDS AND FUTURE PROSPECTS





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A Special Publication Commemorating 25 years of ASEAN-India Partnership, published by the Export- Import Bank of India, in association with the Indian Mission to ASEAN, Jakarta

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एक कदम स्वच्छता की ओर

Foreword


India and ASEAN have a combined economy of USD 3.8 trillion and a mutual stake in regional prosperity. India's engagement with the ASEAN started with its "Look East Policy" in the year 1991, which has now transformed into "Act East Policy". We have successfully moved from a dialogue partnership to a summit partnership level. The year 2017 is special as we celebrate 25th Anniversary of our dialogue partnership and golden jubilee of the foundation of ASEAN.

Economic ties between India and ASEAN are accorded high priority which has produced rich dividends over the years. Today, South East Asia is one of our biggest trading partners. The Free Trade Agreement in Goods, implemented in 2010 and the Trade Agreement in Services and Investment, implemented in 2015 represent our joint efforts to enhance ASEAN-India economic partnership.

With ASEAN and India working towards establishing a Regional Comprehensive Economic Partnership (RCEP), our cooperation will further deepen economic integration, key to promoting regional growth and economic prosperity in our region.

I am glad that the Indian Mission, in collaboration with Exim Bank, has brought out this publication focusing on the ASEAN India Economic Partnership and role of Exim Bank, on the occasion of the Silver Jubilee of our dialogue partnership with ASEAN. This study is comprehensive as it focuses on strengthening ASEAN – India partnership, promoting India's trade relations and bilateral investment with ASEAN along with India's CLMV initiative and Potential Areas for Enhancing Cooperation. I hope that this publication would provide an important contribution to the existing knowledge pool on the subject and would be a valuable reference for policy makers, businesses and academia.

Finally, I would like to record my appreciation of the efforts that have been put in by the Indian Mission and Exim Bank in fostering the India-ASEAN relations.


(Suresh Prabhu)
21, December, 2017

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EXECUTIVE SUMMARY

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration), and since then, has emerged as one of the fastest growing regions in the world. Over the past 50 years since its formation, ASEAN has made extraordinary progress both economically and socially, with deepened intra-ASEAN cooperation and narrowed developmental gap within and across ASEAN region. ASEAN was proclaimed a Community through a Declaration signed by ASEAN Leaders at their 27th 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 ASEAN economy has witnessed a robust growth during the last five decades and expanded over 100-fold since its establishment, to reach a total GDP of US\$ 2.55 trillion in 2016, with a share of 6.2 percent in the world GDP (based on US\$ at PPP). In 2016, the combined GDP of ASEAN, as a single economy, placed it as the 6th largest in the world and the 3rd largest in Asia.

International Trade of ASEAN

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 increase in both amount 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. ASEAN's total trade accounts for 7.1 percent share of the world's total trade and it is the fourth-largest trading region in the world, behind the European Union, USA and China. Over the past decade, ASEAN's total trade witnessed an upward trend increasing from US\$ 1.6 trillion in 2007 to US\$ 2.3 trillion in 2016.

Collectively, the intra-ASEAN market is the largest market for ASEAN trade. The share of Intra-ASEAN exports in ASEAN's total exports has continued to be on an increasing trend since 1995, varying between 21 percent and 28 percent, while the share of Intra-ASEAN imports increased even further over the same period, from 16.5 percent in 1995 to 22.2 percent in 2016.

Investment Scenario in ASEAN

In recent years, the ASEAN region has benefited from growing Foreign Direct Investment (FDI) inflows even amidst global economic uncertainties. FDI flows have significantly evolved from US\$ 3.0 billion in 1984 to US\$ 96.7 billion in 2016, growing at a CAGR of 11.4 percent, attaining its peak in 2014, at US\$ 133.1 billion. Particularly during the past decade, FDI inflows to ASEAN have more than doubled, from US\$ 41.9 billion in 2005 to US\$ 96.7 billion in 2016.

The share of intra-ASEAN FDIs in ASEAN's total inward FDI flows accounted for 15.1 percent in 2010, and has nearly doubled to reach 24.8 percent in 2016.

Services Sector in ASEAN: An Evolving Landscape

ASEAN economies are becoming increasingly services-oriented. Services sector is generally the most significant and continuously increasing sector in ASEAN economies, as compared to agriculture and industrial sectors. Services account for around half of the GDP of the region for the last decade, and reached 53.1 percent in 2016.

The ASEAN region is a net exporter of services, with the prevailing level of services export being slightly more than 1.5 times the value of exports in 2010. Both export and import of ASEAN in services are largely led by 3 sectors viz. travel, transport, and other business services. These 3 are considerably larger than the other sectors put together. Services sector is also the most significant sector in receiving FDI in ASEAN, compared to the agricultural and extractive sectors, as well as manufacturing and industrial sectors.

The Resurgent Indian Economy

India's diversified economy encompasses modern agriculture, an array of services, and a wide range of industries, and has placed it as the world's 7th largest economy based on nominal GDP¹ and the world's 3rd largest economy based on GDP measured in PPP terms in 2016. India's Gross Domestic Product (GDP) has been progressively expanding over the recent years and had witnessed a growth rate of 8 percent in FY 2015-16, the fastest pace in 5 years, supported by investment and urban consumption, followed by a modest slowdown in FY 2016-17 to 7.1 percent. According to the World Bank, India remains the fastest growing economy in the world and it will get a big boost from its approach to GST which will - reduce the cost of doing business for firms, reduce logistics costs of moving goods across states, while ensuring no loss in equity.

India's total trade has been steadily increasing over the past decade, at a CAGR of 4.8 percent, and amounted to US\$ 660.6 billion in FY 2016-17, vis-a-vis US\$ 414.8 billion in FY 2007-08. Consequently, India's share in global merchandise trade increased to 1.9 percent in 2016 from 1.1 percent in 2007. India has retained its position as a net exporter of services over the decade. India's share in global services exports has increased from 2 per cent in 2005 to 3.3 percent in 2016, making India the 8th largest service exporter in the world in 2016, 7 positions up from its previous rank of 15 in the year 2005.

FDI inflow into India increased to US\$ 60.1 billion in FY 2016-17, as compared to US\$ 34.3 billion in FY 2012-13, owing to an upsurge in equity inflows during the period, while FDI outflows from India stood at US\$ 24.9 billion in FY 2016-17, witnessing a positive growth from US\$ 22 billion in FY 2015-16, after having dropped for two consecutive years. Service sector is the top FDI attracting sector within India, with a share of 17.9 percent in India's total FDI inflows in FY 2016-17, followed by computer software and hardware sector, and construction development, among others. On the other hand, India's FDI outflows were mainly directed towards financial, insurance and business services sector in FY 2016-17, followed closely by agriculture and mining, manufacturing, and wholesale & retail trade, among others.

ASEAN-India Partnership

ASEAN-India dialogue relations emerged into a sectoral dialogue partnership in 1992 and gradually grew into a full dialogue partnership in December 1995. The bilateral relations, which saw an expansion of trade and

¹IMF World Economic Outlook, October 2017

investment, exhibit the intensity of economic engagements between India and ASEAN. The year 2017 has marked the 25th year of dialogue partnership and 15th year of Summit level partnership between ASEAN and India. India and ASEAN have been cooperating with each other, over the years, by way of implementation of various projects in the fields of agriculture, science & technology, space, environment & climate change, human resource development, capacity building, new and renewable energy, tourism, people-to-people contacts and connectivity, among others.

The ASEAN - India Framework Agreement on Comprehensive Economic Cooperation (CECA) was signed between India and ASEAN² on October 8, 2003 in Bali, Indonesia, to institutionalise a framework for future economic cooperation.

In order to further strengthen ASEAN-India relations and as an attempt to provide an impetus to the regional integration that India has with its eastern neighbours, India's 'Look East' Policy was transformed to the 'Act East' Policy in 2014. The objective of 'Act East Policy' is to promote economic cooperation, cultural ties and develop strategic relationship with countries in the Asia-Pacific region through continuous engagement at bilateral, regional and multilateral levels thereby providing enhanced connectivity to the states of India's North-eastern Region.

While the ASEAN-India Free Trade Area is fully functional from July 2015, India is also actively engaged in the Regional Comprehensive Economic Partnership negotiations involving ASEAN and its six FTA partners, which, when completed, is expected to be the largest regional trading arrangement, accounting for nearly 40 percent of the world trade.

India-CLMV Initiative

Within the ASEAN region, CLMV countries, rank the third largest in terms of size of economy, after Indonesia and Thailand. The CLMV countries are at different levels of economic development, and thus, one of the top priorities of ASEAN Community is the integration of Cambodia, Lao PDR, Myanmar and Vietnam with ASEAN by bridging the development gaps.

India and the CLMV region have historically had civilizational, cultural and economic relations since the ancient times. Due to its close proximity, India is looking to boost trade and investment with the CLMV region as part of the 'Act East' policy of the Government of India. Government of India endeavours to cultivate extensive economic and strategic relations in South-East Asia by way of stimulating investments from the Indian private sector into the CLMV region. In order to step up India's commercial engagements with CLMV countries, the Government of India envisages establishment of an institutional mechanism for encouraging investments by Indian manufacturing and infrastructure development companies in CLMV countries through a Project Development and Facilitation Framework (PDFF).

In view of the above, a Project Development Fund (PDF) with a corpus of INR 500 crores to develop manufacturing hubs in CLMV countries was announced by Honourable Indian Prime Minister, at the 13th ASEAN-India Summit held in Malaysia in November 2015. The PDF, housed in Department of Commerce, Ministry of Commerce and

²The signing of the ASEAN declaration or Bangkok declaration marked the establishment of the ASEAN (Association of Southeast Asian Nations) on August 8, 1967 in Bangkok, Thailand. The founding member states of ASEAN were Indonesia, Malaysia, Philippines, Singapore and Thailand. Later, it was joined by Brunei Darussalam (1984), Vietnam (1995), Lao PDR and Myanmar (1997) and Cambodia (1999).

Industry, Government of India would be operated through the Exim Bank, which will act as the 'Empowered Institution' under the initiative. Exim Bank has been working closely with Department of Commerce, Ministry of Commerce and Industry, Government of India for conducting a study for developing a framework to identify opportunities for India in trade and investments in CLMV countries.

India's Bilateral Trade and Investment with ASEAN

The trade and investment linkages between India and ASEAN witnessed rapid expansion owing to the increasing intensity of economic engagements between India and ASEAN. Consequently, India stands as ASEAN's 11th largest trading partner in the year 2016. However, during the past five years, India's total trade with the ASEAN has witnessed a moderation from US\$ 75 billion in 2012 to US\$ 64.6 billion in 2016. Both exports and imports have declined over the period, from US\$ 32.3 billion and US\$ 42.7 billion respectively in 2012, to US\$ 26.4 billion and US\$ 38.2 billion respectively in 2016.

Alongside trade, India's investments in the ASEAN region have also received a boost in recent years. ASEAN countries are receiving strong investment interest from India mainly due to their high-growth markets, low wage labour and natural resource reserves. FDI flows to India have primarily been in real estate sector, which has a share of 27.9 percent in India's total FDI inflows from ASEAN, followed by coal, oil and natural gas sector, while a major portion of India's outward FDI to ASEAN is directed towards coal, oil and natural gas sector and metals sector, followed by services sectors such as software and IT services, financial services as well as business services.

Investment Opportunities for India in ASEAN

ASEAN is marked as a key growth hot spot in the world today. With its 10 diverse markets, of which a number are progressing to be developed nations and some are in the developing stage, there are wide business and investment opportunities. ASEAN is implementing ASEAN Investment Area (AIA), which is an outcome of ASEAN Comprehensive Investment Agreement (ACIA) and is also implementing the ASEAN Investment Guarantee (AIG) scheme. There are proposals to improve ASEAN-India investment environment. With these measures in place, FDI between ASEAN and India is expected to improve in the near future.

Exim Bank's Endeavours to Harness Synergies with ASEAN

Countries in the South East Asia region have been a focus region for Export- Import Bank of India (Exim Bank), and thus form a critical component of the Exim Bank's strategy to promote and support two-way trade and investment. In its endeavour to promote India's international trade, Exim Bank's vision has evolved from financing, facilitating and promoting trade and investment, to a conscious and systematic effort at creating export capabilities. Exim Bank today seeks to develop commercially viable business relationships with externally oriented companies.

Exim Bank operates a comprehensive range of financing, advisory and support programmes to promote and facilitate India's trade and investment relations with the ASEAN countries. Exim Bank plays the role of a catalyst for investment in the region by extending loans to Indian companies for investment in the region and entering into various collaborative programmes.

With a view to enhance cooperation and forge a stronger link among its member institutions, the Asian Exim Bank's Forum (AEBF), a grouping of Asian Exim Banks, was conceived and initiated by Exim Bank of India in 1996. The Forum envisages enhancing economic cooperation and forging 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, driven by ASEAN-India in particular, in trade relations and cooperation could play an important role in reinforcing growth momentum in the region.

The Way Forward

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 up-gradation of the relationship into a Strategic Partnership in 2012 was a natural progression to the ground covered since India became a Sectoral Partner of the ASEAN in 1992, Dialogue Partner in 1996 and Summit Level Partner in 2002.

An area of concern that needs attention is the fact, that over the past five years, India's trade with ASEAN has witnessed moderation from US\$ 75 bn in 2012 to US\$ 64.6 bn in 2016, with both India's exports and imports slowing down over the period. The slowdown in India's exports to ASEAN, and thereby overall trade, has been especially consistent since 2013. India stands as ASEAN's 11th largest trading partner in the year 2016. 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.

The ASEAN region as a whole is characterized by the presence of strong production networks and Regional Value Chains (RVCs) both within and outside the ASEAN. On the other hand, India is almost left out of any significant regional value chains in its neighbourhood. It has been found that such endeavours unleash a dynamic process that creates positive developmental pressures on forging better infrastructural linkages. India and ASEAN could thus, explore opportunities to cooperate and partner in mutually beneficial Regional Value Chain networks. Other areas of collaboration between India and ASEAN could include improving connectivity network, cooperation in SME sector in the CLMV region, cooperation in ITES, and developing stronger linkages with investment promotion agencies in the region, among others. Closer economic and trade linkages among the economies of Asia could prove to be a mutually rewarding association.

1. EMERGING ASEAN: EVOLUTION, MACROECONOMY AND ITS GROWING IMPORTANCE

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the founding Members of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand, also known as ASEAN-5. Later, Brunei Darussalam joined on January 7, 1984, Vietnam on July 28, 1995, Lao People's Democratic Republic (Lao PDR) and Myanmar on July 23, 1997, and Cambodia on April 30, 1999, making up the ten member states of ASEAN. ASEAN was proclaimed a Community through a Declaration signed by ASEAN Leaders at their 27th Summit in Kuala Lumpur on November 22, 2015.

Figure 1.1: ASEAN Members



Source: ASEAN Secretariat

ASEAN's Economy

Over the past 50 years since its formation, ASEAN has made extraordinary progress both economically and socially, with deepened intra-ASEAN cooperation and narrowed developmental gap within and across ASEAN region.

The ASEAN economy has witnessed a robust growth during the last five decades and expanded over 100-fold since its establishment, to reach a total GDP of US\$ 2.55 trillion in 2016³ (current prices) -more than four times

³www.aseanstats.org

the level in 1999 when it first achieved the full membership of ASEAN-10. In 2016, the combined GDP of ASEAN, as a single economy, placed it as the 6th largest in the world and the 3rd largest in Asia. The standard of living improved considerably in ASEAN, driven by rapid economic growth, with nominal GDP per capita averaging US\$ 4,021 in 2016 for the ten ASEAN member States, as compared to an average nominal GDP per capita of just US\$ 122 for the ASEAN-5 in 1967 (**Table 1.1**).

Table 1.1: Evolution of ASEAN's Economy over the Past 50 Years – Select Indicators

Indicators	1967	1984	1995	1997	1999	2005	2010	2016
GDP at current prices (US\$ Trn)	0.02	0.22	0.65	0.72	0.58	0.94	1.93	2.55
GDP Growth Rate (%)	4.3	4.4	8.1	4.5	3.4	5.8	7.5	4.8
% Share of ASEAN in world GDP (% based on US\$ at PPP)	3.3	3.6	5.1	5.3	4.8	5.2	5.6	6.2
GDP per capita (US\$ at current prices)	122	765	1,556	1,462	1,135	1,701	3,268	4,021

Source: ASEAN Secretariat

ASEAN's International Trade

The growing significance of international trade as a growth facilitator for the region is evident from the performance of ASEAN countries over the years. ASEAN's total trade accounts for 7.1 percent share of the world's total trade⁴ and it is the fourth-largest trading region in the world, behind the European Union, USA and China.⁵ The share of ASEAN in world's exports has more than tripled over the past 50 years, reaching 7.2 percent in 2016, up from 2 percent in 1967. Meanwhile, share of ASEAN in world's imports has also increased significantly to reach 6.6 percent in 2016, up from 2.3 percent in 1967 (**Table 1.2**).

Table 1.2: Evolution of ASEAN's International Trade – Select Indicators

Indicators	1967	1984	1995	1997	1999	2005	2010	2016
% Share of ASEAN in the world exports	2.0	3.9	5.8	6.3	6.2	6.2	6.9	7.2
% Share of ASEAN in world imports	2.3	3.6	6.1	6.4	5.0	5.3	6.2	6.6
Trade to GDP ratio (%)	43.1	69.3	96.7	100.4	112.5	130.8	104.3	87.0

Source: ASEAN Secretariat

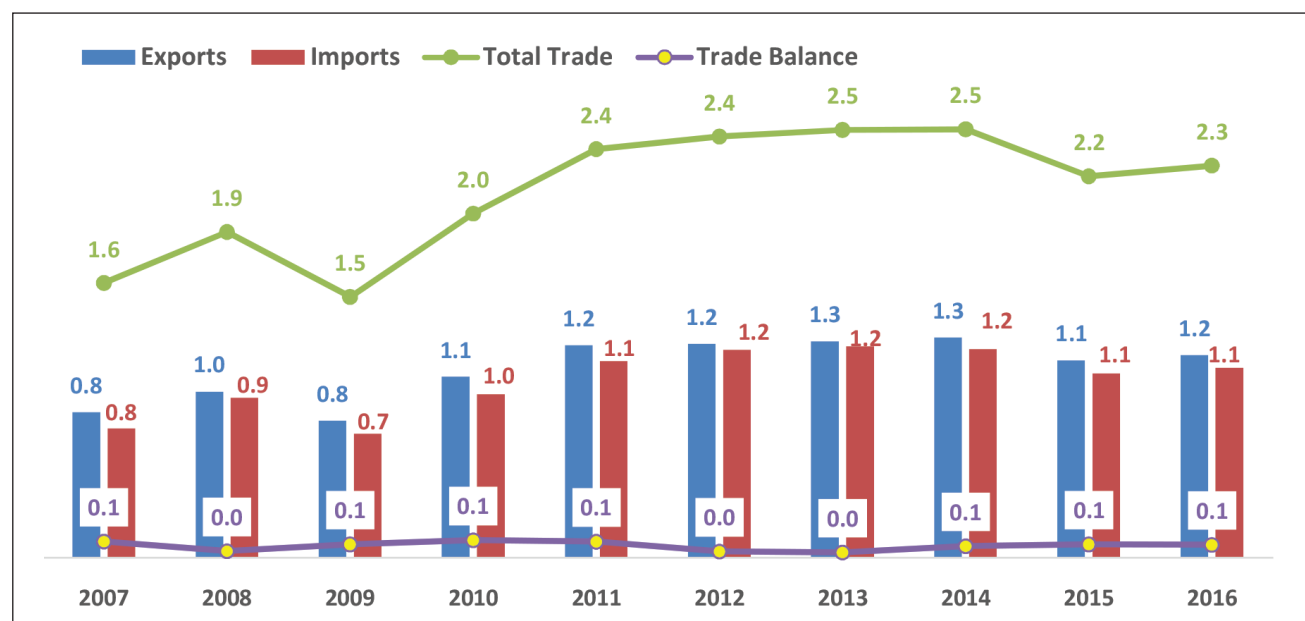
Over the past decade, ASEAN's total trade witnessed an upward trend increasing from US\$ 1.6 trillion in 2007 to US\$ 2.3 trillion in 2016, interspersed with a sharp fall in 2009, reflecting the period of the global financial crisis, and a period of relative slowdown in 2015, in line with the moderating global trade. During the period, exports and imports followed a similar trend. The trade balance (i.e. exports minus imports), has consistently recorded a surplus, though moderate, over the decade (**Figure 1.2**).

⁴ITC, Geneva and Exim Bank Analysis

⁵ASEAN Secretariat

Presently, ASEAN's top trading partners include USA, China and Germany, followed closely by Japan. ASEAN's major export destinations in 2016 were China (13.2% of ASEAN's total exports), USA (9.2%), Germany (8.5%), Japan (4.1%), Netherlands (3.6%), and Hong Kong (3.3%). On the other hand, ASEAN major import sources were USA (14% of ASEAN's total imports), China (9.9%), Germany (6.6%), United Kingdom (4%) and Japan (3.8%).

Figure 1.2: ASEAN's International Trade (US\$ trillion)



Source: ITC, Geneva and Exim Bank Analysis

Table 1.3: Trends in Intra-ASEAN Trade

Indicators	1995	1997	1999	2005	2010	2016
% Share of Intra-ASEAN in ASEAN's exports	23.1	24.1	21.1	25.3	28.1	24.7
% Share of Intra-ASEAN in ASEAN's imports	16.5	17.6	19.7	24.5	26.4	22.2

Source: ASEAN Secretariat

Collectively, the intra-ASEAN market is the largest for ASEAN trade. Intra-ASEAN trade—that is, trade between any of ASEAN's 10 member states—is governed by the ATiGA (ASEAN Trade in Goods Agreement), which came into effect on May 17, 2010. **Table 1.3** shows, that since 1995, intra-ASEAN exports and imports of goods followed the same trend: after a first decade of slow growth, both accelerated beginning in 2001, with a moderation witnessed after 2010, following the global financial crisis.

The share of Intra-ASEAN exports in total ASEAN exports has continued to be on an increasing trend since 1995, varying between 21 percent and 28 percent. The share of Intra-ASEAN imports increased even more over the same period, from 16.5 percent in 1995 to 22.2 percent in 2016, peaking at 26.4 percent in 2010. The value of intra-ASEAN exports and imports quadrupled between 2001 and 2013, followed by slight moderation over 2014-2016 period, in line with the global trend.

Services Sector in ASEAN: An Evolving Landscape

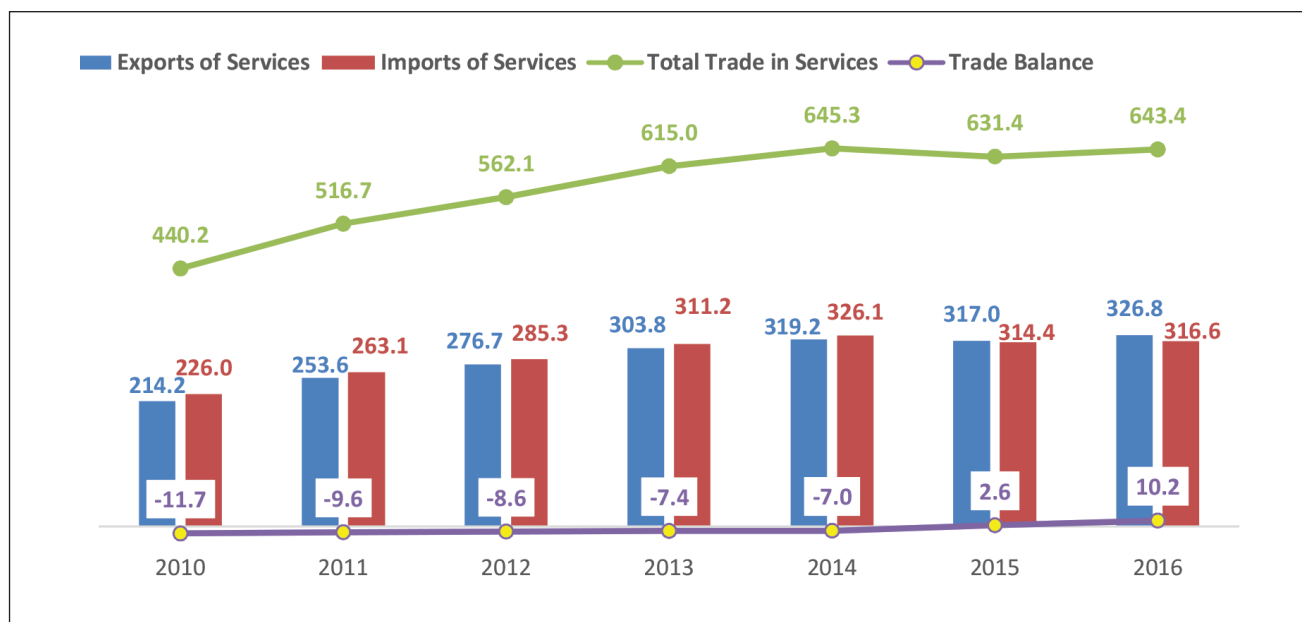
Institutional development and economic competitiveness have become increasingly more important to the region, as ASEAN economies are becoming increasingly services-oriented. The growing ubiquity of services in the global economy, particularly in production networks and supply-chain, would have a more significant role in and impact on trade in services and investment in services sector regionally within and globally beyond ASEAN. Services sector is generally the most significant and continuously increasing sector in ASEAN economies, as compared to agriculture and industrial sectors. Services account for around half of GDP of the region for the last decade, and reached 53.1 percent in 2016.

Within the last decade from 2006 to 2016, the proportion of services sector in the GDP of ASEAN countries, individually, increased by around 2 percent to 4 percent, with highest change recorded for Malaysia at 7.6 percent, followed by Myanmar and Indonesia at 4.7 percent and 4.5 percent, respectively.

Trade in Services

ASEAN's export and import of services have increased significantly over the recent years, which is more striking than the growth pattern of the overall economic output (GDP). ASEAN's overall export and import of services in 2016 are estimated to be US\$ 326.8 billion and US\$ 316.6 billion, respectively (**Figure 1.3**). The prevailing level of export of services is slightly more than 1.5 times the value of exports in 2010, which was recorded at US\$ 214.2 billion, while imports increased 1.4 times during the same period, from its level of US\$ 226 billion in 2010. This progress has consequently transformed the region as a whole from an erstwhile net importer of services until 2014, to a net exporter of services in the present.

Figure 1.3: ASEAN'S International Trade in Services (US\$ billion)



Source: ASEAN Secretariat

In terms of sectoral distribution of services, both export and import of services in ASEAN are largely led by 3 sectors viz. travel, transport, and other business services. These 3 are considerably larger than the other

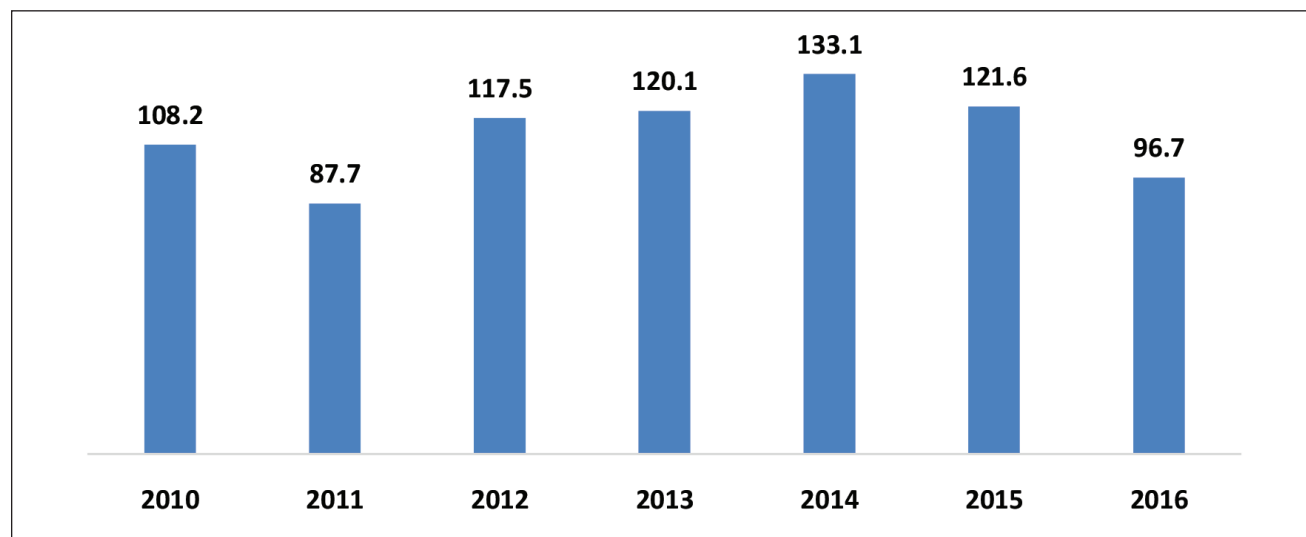
sectors put together. However, in terms of growth, ASEAN's top three fastest growing sectors over the decade between 2006-2016 are intellectual property, insurance and pension, and telecommunications and ICT services for export; and telecommunications and ICT, maintenance and repair, and financial services for import⁶.

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.

The flow of FDI made by foreign investors in ASEAN has been witnessing an increasing trend, attaining its peak in 2014, at US\$ 133.1 billion, although with fluctuations including drops in 2008, 2009, 2011, 2015 and 2016 (**Figure 1.4**). Flows of foreign direct investment are closely related to global economic conditions, and this indicates the cause of the apparent slowdowns in investment levels during these years. However, from a broader perspective, it is evident that FDI flows have significantly evolved from US\$ 3.0 billion in 1984 to US\$ 96.7 billion in 2016⁷, growing at a CAGR of 11.4 percent. Particularly during the past decade, FDI inflows to ASEAN have more than doubled, from US\$ 41.9 billion in 2005 to US\$ 96.7 billion in 2016.

Figure 1.4: ASEAN's Inward FDI Flows (US\$ bn)



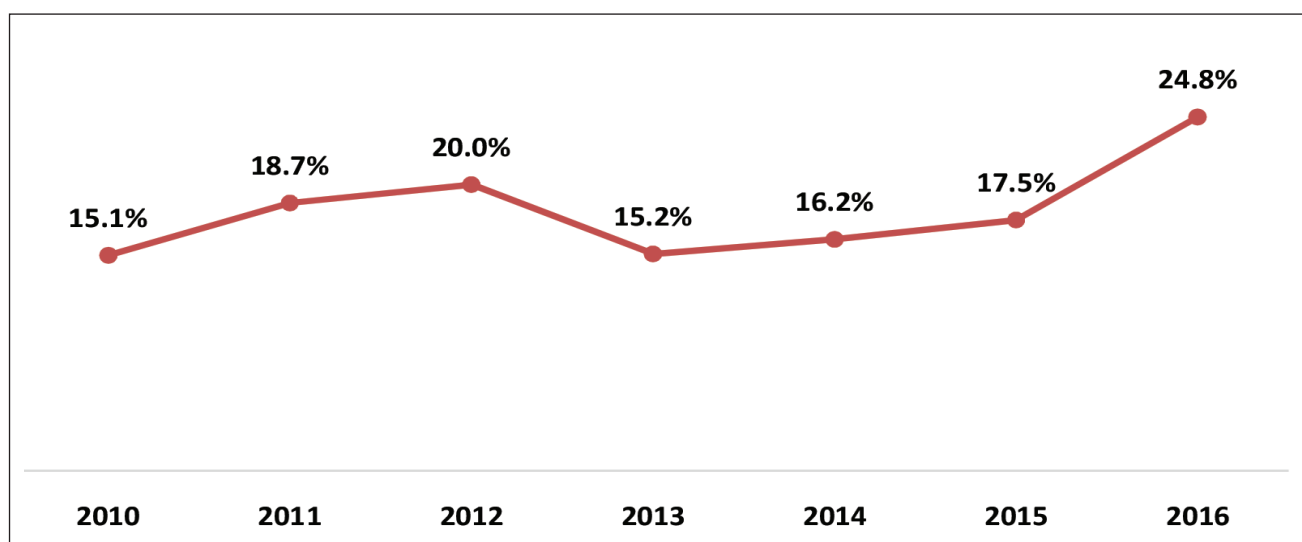
Source: ASEAN Secretariat

Intra-ASEAN FDI corresponds to the investments made by residents within ASEAN countries in ASEAN. Until 2009, intra-ASEAN FDI remained at a low level and did not exceed US\$ 9 billion⁸. However, since 2010, intra-ASEAN investments have increased significantly. In 2010, the share of intra-ASEAN FDIs in ASEAN's total inward FDI flows accounted for 15.1 percent, and has nearly doubled to reach 24.8 percent in 2016 (**Figure 1.5**).

⁶ASEAN Service Report 2017

^{7,8}ASEAN Secretariat

Figure 1.5: Share of Intra-ASEAN FDI in ASEAN'S Inward FDI Flows



Source: ASEAN Secretariat

Foreign Direct Investments in Services Sector

Services sectors are the most significant sector in receiving FDI in ASEAN, compared to the agricultural and extractive sectors, as well as manufacturing and industrial sectors. Nearly half of the FDI into services sectors generally goes into the financial and insurance activities, followed by wholesale and retail trade and repair services of motor vehicles. The third main FDI recipient sector is the real estate services, followed by transportation and storage.

The investments into ASEAN's services sector are mainly dominated by investors from EU, US, Japan, and of a very significant portion, intra-ASEAN investors as well. ASEAN's other important investors and trading partners such as China, Hong Kong, Australia, India, Korea and Canada have also made sizeable investments in the services sector in ASEAN.

ASEAN's Vision for 2025

ASEAN Community Vision 2025

The member nations of ASEAN adopted the ASEAN Community Vision 2025 known as the "Kuala Lumpur Declaration on ASEAN 2025: Forging Ahead Together", which was simultaneously endorsed by the Leaders at their 27th Summit in Kuala Lumpur, Malaysia. This declaration charts the path for ASEAN Community building over the next ten years. It is a forward looking roadmap that articulates ASEAN goals and aspirations to realise further consolidation, integration and stronger cohesiveness as a Community. ASEAN is working towards a Community that is "politically cohesive, economically integrated, and socially responsible". The ASEAN 2025 Document is the outcome of intense discussions and planning, and reflects the determination of Member States to forge ahead with the next phase of ASEAN's evolution⁹.

⁹ASEAN Secretariat

Master Plan on ASEAN Connectivity 2025

ASEAN's high economic growth and maturing economies are attracting more and more of the world's best and brightest, while local firms are improving their own capacities, moving up value chains and becoming formidable competitors in their own right. Increasing regional connectivity is imperative for gradually lowering the barriers to trade and investment in the region, and to allow other partner countries to build strong commercial foundation in ASEAN.

In this regard, the ASEAN Leaders adopted the Master Plan on ASEAN Connectivity 2025 (MPAC 2025) in Vientiane, Lao PDR on September 06, 2016. The vision for the ASEAN Connectivity 2025 is to achieve a seamlessly and comprehensively connected and integrated ASEAN that will promote competitiveness, inclusiveness, and a greater sense of Community. The MPAC 2025, which succeeds the Master Plan on ASEAN Connectivity 2010, focuses on five strategic areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility. The MPAC 2025 was developed in consultation with relevant ASEAN Sectoral Bodies and other stakeholders. The remaining initiatives from MPAC 2010 were evaluated and incorporated in the MPAC 2025.

2. MACROECONOMIC ENVIRONMENT: A SNAPSHOT OF ASEAN ECONOMIES

Brunei Darussalam

Domestic Economy

- ❖ Brunei's real GDP continued to contract by 2.5 percent in 2016, mainly due to a deteriorating oil and gas sector, which accounts for the bulk of Brunei's economy, as well as a large fall in investment spending.
- ❖ In absolute terms, GDP of Brunei declined to US\$ 11.2 billion in 2016 from US\$ 12.9 bn in 2015, and the per capita GDP was at US\$ 28,000.
- ❖ The average consumer price inflation declined to -0.7 percent in 2016, from -0.4 percent in 2015, owing to further fall in global food and fuel prices.
- ❖ Industrial sector dominated the economy, accounting for 60.4 percent of Brunei's GDP in 2016, followed by services sector (38.5 percent of GDP) and agriculture sector (1.1 percent).

BASIC FACTS

Land area: 5,765 sq km

Population: 420,000 (2015; IMF)

Language: Malay; Chinese and English

Currency: Brunei dollar or Brunei ringgit (Br\$)

GDP: US\$ 11.2 bn (2016)

Macroeconomic Outlook

- ❖ Real GDP growth of Brunei is expected to pick up as a result of an increase in investment spending, and average around 1 percent during the forecast period of 2017-2018.
- ❖ Consumer price inflation is expected to average -0.1 percent in 2017 and a positive inflation is expected to re-emerge in 2018, at an average of 0.3 percent, owing to a pick-up in GDP growth.
- ❖ The Brunei dollar is forecast to slightly depreciate from an annual average of Br\$ 1.38: US\$ 1 in 2016 to Br\$ 1.39: US\$ 1 in 2017 and further to Br\$ 1.41: US\$ 1 in 2018, as sustained period of low global oil prices has put considerable downward pressure on the value of the Brunei dollar, pushing up local consumer prices.

Table 2.1: Brunei: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	19.0	18.1	17.1	12.9	11.2	-	-
Real GDP growth (%)	0.9	-2.1	-2.3	-0.6	-2.5	0.5	1.4
Consumer price inflation (avg, %)	0.5	0.4	-0.2	-0.4	-0.7	-0.1	0.3
Population (mn)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Merchandise exports fob (US\$ bn)*	13.0	11.4	10.5	6.4	5.0	-	-
Merchandise imports fob (US\$ bn)*	3.6	3.6	3.6	3.2	3.1	-	-
Total int'l reserves (US\$ bn)*	3.3	3.4	3.5	3.2	3.3	-	-
Avg exchange rate (Br\$: US\$)	1.25	1.25	1.27	1.37	1.38	1.39	1.41

Note: ^e – Estimate; ^f – Forecast; Source: EIU, IMF, *-World Bank Data

Cambodia

Domestic Economy

- ❖ Real GDP growth of Cambodia moderated to an estimated 6.8 percent in 2016 as compared to 7 percent in 2015 for the third consecutive year due to tight credit conditions with the aggregate loans to deposit ratio of the banks hovering over 100 percent weighing on the economic activity.
- ❖ In absolute terms, GDP amounted to an estimated US\$ 20 bn in 2016, with per capita GDP at US\$ 1,265.8.
- ❖ Consumer price inflation increased in 2016 to 3 percent from 1.2 percent in 2015 with the recovery of global oil prices.
- ❖ Services sector accounts for 43.5 percent of GDP in 2016, followed by agriculture (26.7 percent) and industry (29.8 percent).

BASIC FACTS

Land area: 181,035 sq km

Population: 15.8 mn (2016, UN estimate)

Language: Khmer

Currency: Riel (CR)

GDP: US\$ 20.0 bn (2016)

Sovereign Rating: B2 (Moody's)

Macroeconomic Outlook

- ❖ Real GDP is expected to grow by 7 percent in 2017 picking up from 6.8 percent in the previous year as global trade recovers. Cambodia's economy will remain based on private consumption. Incomes will continue to rise rapidly from a low base as productivity improves and the development of higher value-added sectors gains traction.
- ❖ In 2017, consumer price inflation is expected to rise by an average of 4 percent from 3 percent in 2016 as the global oil prices are expected to gain some momentum compared to the previous year.
- ❖ The Riel (CR) is expected to depreciate CR 4,083: US\$ 1 in 2017 from CR 4,059: US\$ 1 in 2016 owing to the widening current account deficit of Cambodia.

Table 2.2: Cambodia: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	14.0	15.4	16.8	18.0	20.0	21.3	23.3
Real GDP growth (%)	7.3	7.5	7.1	7.0	6.8	7.0	7.2
Consumer price inflation (avg, %)	2.9	2.9	3.9	1.2	3.0	4.0	4.2
Population (mn)	14.8	15.1	15.3	15.6	15.8	16.1	16.3
Merchandise exports fob (US\$ mn)	5,664	6,565	7,445	8,453	9,233	10,281	11,268
Merchandise imports fob (US\$ mn)	8,181	9,794	10,669	11,920	12,648	13,980	15,554
Total int'l reserves (US\$ mn)	4,938	4,995	6,106	7,376	9,122a	9,793	9,695
Avg exchange rate (CR : US\$)	4,033	4,027	4,038	4,068	4,059	4,083	4,116

Note: ^a - Estimates; ^f - Forecasts; Source: EIU, IMF

Indonesia

Domestic Economy

- ❖ Real GDP of Indonesia grew by 5 percent in 2016, compared to a growth of 4.9 percent seen in 2015, mainly supported by robust private consumption and investment.
- ❖ In absolute terms, nominal GDP stood at US\$ 932.1 bn in 2016. GDP per capita was observed at US\$ 3,609.9 in the same year.
- ❖ Consumer price inflation moderated to 3.5 percent in 2016, from that of 6.4 percent in the previous year.
- ❖ Services sector is the major contributor to Indonesia's economy, accounting for 46 percent of GDP in 2016, followed by industry (40.3 percent of GDP) and agricultural (13.7 percent of GDP) sectors.

BASIC FACTS

Land area: 1,904,443 sq km

Population: 258.2 mn (2016)

Language: Indonesian; English

Currency: Rupiah (Rp)

GDP: US\$ 932.1 bn (2016)

Sovereign Rating: BBB- (S&P's)

Macroeconomic Outlook

- ❖ The real GDP of Indonesia is estimated to grow by 5.2 percent in 2017, supported by private consumption but it might be dragged down by sluggishness in the external sector as a result of the slowdown in the Chinese economy.
- ❖ Consumer price inflation in Indonesia is expected to be at 4.4 percent in 2017 as compared to 3.5 percent in 2016 as the global commodity prices gradually recover.
- ❖ Although Indonesia's economic fundamentals are relatively stable, twin deficits on the current and fiscal accounts make the rupiah vulnerable to negative turns in global capital markets. The rupiah is expected to slightly depreciate to Rp 13,370: US\$ 1 in 2017 from Rp 13,308: US\$ 1 in 2016.

Table 2.3: Indonesia: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	917.7	912.3	890.5	861.1	932.1	1,021.5	1,070.0
Real GDP growth (%)	6.0	5.6	5.0	4.9	5.0	5.2	4.7
Consumer price inflation (avg, %)	4.3	6.4	6.4	6.4	3.5	4.4	5.7
Population (mn)	248.2	250.8	253.3	255.8	258.2	260.6	262.9
Merchandise exports f.o.b. (US\$ bn)	187.3	182.1	175.3	149.1	144.4	155.6	154.9
Merchandise imports f.o.b. (US\$ bn)	178.7	176.3	168.3	135.1	129.0	139.1	140.3
Total int'l reserves (US\$ bn)	112.8	99.4	111.9	105.9	116.4	123.2	118.2
Avg exchange rate (Rp : US\$)	9,387	10,461	11,865	13,389	13,308	13,370	13,969

Note: ^e - Estimates; ^f - Forecasts; Source: EIU, IMF

Lao PDR

Domestic Economy

- ❖ Lao PDR's real GDP growth is estimated to have slowed to 6.8 percent in 2016, from 7.4 percent in 2015, because of lower government spending to control the deficits and a slowing Chinese economy.
- ❖ In absolute terms, GDP of Lao PDR's stood at an estimated US\$ 14.5 billion in 2016, with per capita GDP at US\$ 2,101.
- ❖ The average consumer price inflation increased marginally to 1.5 percent in 2016 from 1.3 percent in 2015. Inflationary pressures have been low because of lower global food and oil prices.
- ❖ Services sector dominated the economy of Lao PDR's in 2016, accounting for 40 percent of the GDP, followed by industrial sector (35 percent of GDP) and agricultural sector (25 percent of GDP).

BASIC FACTS

Land area: 236,800 sq km

Population: 6.9 mn
(2016; estimate)

Language: Lao

Currency: Kip (K)

GDP: US\$ 14.5 bn (2016)

Macroeconomic Outlook

- ❖ Real GDP growth is expected to moderate to 6.7 percent in 2017, from 6.8 percent in 2016. This is on account of growing external vulnerabilities. The slowdown in Chinese economy, which is a major trade and investment partner of Laos, is a major reason of lower growth forecast.
- ❖ Average consumer price inflation is expected to pick up to 3 percent in 2017, compared to 1.5 percent in 2016. The pickup in inflation is on the back of rising global food and oil prices. If the kip depreciates sharply, then inflationary pressures will also rise sharply.
- ❖ The kip is expected to depreciate by 1 percent to K 8,203: US\$ 1 in 2017, from K 8,121: US\$ 1 in 2016. But there is a high risk of further depreciation looming over kip because of low reserves.

Table 2.4: Lao PDR: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	9.4	11.2	11.7	12.4	14.5	4.6	4.7
Real GDP growth (%)	8.0	8.5	7.5	7.4	6.8	6.7	6.5
Consumer price inflation (avg, %)	4.3	6.4	4.1	1.3	1.5	3	2.8
Population (mn)	6.5	6.6	6.7	6.8	6.9	-	-
Merchandise exports fob (US\$ bn)	2.3	2.3	2.7	2.8	2.7	2.9	3.0
Merchandise imports fob (US\$ bn)	3.1	3	4.3	5.2	5.5	5.9	6.1
Total int'l reserves (US\$ mn)	799	722	875	1,043	925	-	-
Avg Exchange rate (K: US\$)	8,008	7,860	8,049	8,148	8,121	8,203	8,275

Note: - Not available; ^e Estimates; ^f Forecasts; Source: EIU, IMF

Malaysia

Domestic Economy

- ❖ Malaysia's real GDP grew by 4.2 percent in 2016, compared to 5 percent growth witnessed in the previous year, weighed down by the negative effects of sluggish world trade growth and low global energy prices.
- ❖ In absolute terms, GDP of Malaysia stood at an estimated US\$ 296.5 billion in 2016, with per capita GDP of US\$ 9,503.2.
- ❖ The average consumer price inflation remained at an estimated 2.1 percent in 2016 same as recorded in the preceding year.
- ❖ Services sector dominates the economy, accounting for 54 percent of Malaysia's GDP in 2016. It was followed by industrial sector (37.8 percent of GDP) and agricultural sector (8.2 percent).

BASIC FACTS

Land area: 330,252 sq km
Population: 31.2 mn (2016; estimate)
Language: Malay, Chinese, English, Tamil, Iban (in Sarawak), Banjar
Currency: Ringgit or Malaysian dollar (M\$ or RM)
GDP: US\$ 296.5 bn (2016)
Sovereign Rating: A- (S&P's)

Macroeconomic Outlook

- ❖ Malaysia's real GDP is forecast to grow at a stronger rate of 5.2 percent in 2017 as compared to 4.2 percent in 2016, due to a surge in investment spending, spurred by the commencement of several large-scale projects in the manufacturing sector, coupled with steady gains in household spending.
- ❖ Consumer price inflation is expected to increase at an estimated 3.9 percent in 2017 compared to 2.1 percent in 2016, owing to the removal of subsidies from cooking oil, rising retail prices of fuel and the effects of a prolonged bout of Ringgit: US dollar weakness.
- ❖ The ringgit is expected to depreciate further against the US dollar in 2017 at M\$ 4.34: US\$ 1 from M\$ 4.15: US\$ 1 in 2016.

Table 2.5: Malaysia: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	314.4	323.3	338.1	296.4	296.5	302.7	320.3
Real GDP growth (%)	5.5	4.7	6.0	5.0	4.2	5.2	4.8
Consumer price inflation (avg, %)	1.7	2.1	3.1	2.1	2.1	3.9	2.5
Population (mn)	29.2	29.7	30.2	30.7	31.2	31.6	32.0
Merchandise exports fob (US\$ bn)	208.8	202.3	207.5	174.6	165.3	188.2	201.2
Merchandise imports fob (US\$ bn)	172.2	171.7	172.9	146.7	140.9	163.4	175.1
Total int'l reserves (US\$ bn)	139.7	134.9	115.9	95.3	94.5	97.4	96.9
Avg exchange rate (M\$: US\$)	3.09	3.15	3.27	3.91	4.15	4.34	4.38

Note: ^e- Estimates; ^f- Forecast; Source: EIU, IMF

Myanmar

Domestic Economy

- ❖ Real GDP of Myanmar decreased to 6.4 percent in 2016, as compared to 7.3 percent recorded in 2015.
- ❖ In absolute terms, GDP of Myanmar increased to US\$ 65.8 billion with per capita GDP at US\$ 1,243.8 in 2016.
- ❖ The average consumer price inflation decreased to 7 percent in 2016 from 10.8 percent recorded in the preceding year, owing to easing property prices and high base effects.
- ❖ Services sector dominated the economy, accounting for 42.3 percent of Myanmar's GDP in 2016. It was followed by industry (29.5 percent of GDP) and agriculture (28.2 percent).

BASIC FACTS

Land area: 676,563 sq km

Population: 52.9 mn (2016)

Language: Burmese; Karen and Shan

Currency: Kyat (Kt)

GDP: US\$ 65.8 bn (2016)

Macroeconomic Outlook

- ❖ Real GDP of Myanmar is expected to grow by 7.2 percent in 2017 supported by large foreign-invested projects in a number of areas, notably critical infrastructure, manufacturing and energy.
- ❖ Consumer price inflation is expected to increase in 2017 to 8.4 percent, owing to an upward pressure on consumer prices—such as higher oil prices, a weakening currency, and continued monetisation of a widening budget deficit.
- ❖ Myanmar's Kyat is expected to average at Kt 1,362: US\$ 1 in 2017, depreciating from Kt 1,235: US\$ 1, stemming from a large and growing current-account deficit

Table 2.6: Myanmar: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	61.0	62.1	66.3	62.6	65.8	68.5	73.9
Real GDP growth (%)	7.3	8.4	8.0	7.3	6.4	7.2	6.7
Consumer price inflation (avg, %)	1.5	5.5	5.5	10.8	7.0	8.4	8.2
Population (mn)	51.0	51.4	51.9	52.4	52.9	53.4	53.9
Merchandise exports fob (US\$ bn)	8.2	9.4	10.0	9.7	9.1	10.1	10.9
Merchandise imports fob (US\$ bn)	7.6	9.5	11.9	13.7	12.8	15.3	16.9
Total int'l reserves (US\$ bn)	7.0	8.6	2.0	3.8	4.6	5.0	5.6
Avg exchange rate (Kt: US\$)	641	934	984	1,163	1,235	1,362	1,438

Note: ^e- Estimates; ^f- Forecast; Source: EIU, IMF

Philippines

Domestic Economy

- ❖ Real GDP of Philippines is estimated to have grown by 6.9 percent in 2016, as compared to 6.1 percent recorded in 2015, supported by a strong investment growth.
- ❖ In absolute terms, GDP of Philippines increased to an estimated US\$ 304.5 billion with per capita GDP at US\$ 2,947.7 in 2016.
- ❖ The average consumer price inflation increased to 1.8 percent in 2016 from 1.4 percent recorded in the preceding year, owing to recovering global food and oil prices.
- ❖ Services sector dominated the economy, accounting for 59.5 percent of Philippines' GDP in 2016. It was followed by industry (30.8 percent of GDP) and agriculture (9.7 percent).

BASIC FACTS

Land area: 300,179 sq km

Population: 103.3 mn (2016)

Language: Filipino (Tagalog), English and Spanish; many local dialects

Currency: Peso (P)

GDP: US\$ 304.5 bn (2016)

Sovereign Rating: BBB (S&P's)

Macroeconomic Outlook

- ❖ Real GDP of Philippines is expected to grow by 6.5 percent in 2017 due to a marked slowdown in public expenditure, stronger inflationary pressures and teetering labour market.
- ❖ Consumer price inflation is expected to increase in 2017 to 3 percent, owing to an upward pressure on consumer prices—such as higher oil prices, a weakening currency, low base effects, and high capacity utilisation.
- ❖ Philippines peso is expected to average at P 49.84: US\$ 1 in 2017, depreciating from P 47.49: US\$ 1.

Table 2.7: Philippines: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	249.8	271.5	284.1	292.3	304.5	316.6	334.1
Real GDP growth (%)	6.6	7.1	6.1	6.1	6.9	6.5	5.6
Consumer price inflation (avg, %)	3.2	2.9	4.2	1.4	1.8	3.0	2.2
Population (mn)	96.9	98.5	100.1	101.7	103.3	104.9	106.5
Merchandise exports fob (US\$ bn)	46.4	44.5	49.8	43.2	43.4	52.6	56.6
Merchandise imports fob (US\$ bn)	65.3	62.2	67.2	66.5	77.5	90.3	94.9
Total int'l reserves (US\$ bn)	83.8	83.2	79.5	80.7	80.7	83.3	83.4
Avg exchange rate (P: US\$)	42.23	42.45	44.40	45.50	47.49	49.84	51.63

Note: ^e - Estimates; ^f - Forecast; Source: EIU, IMF

Singapore

Domestic Economy

- ❖ Singapore's growth was maintained at 2 percent in 2016, as compared to 1.9 percent in 2015, owing to a continued weakness in domestic demand, coupled with sluggish external trade growth.
- ❖ In absolute terms, GDP stood at US\$ 297 billion in 2016, with per capita income at US\$ 53,035.7.
- ❖ Consumer prices were also maintained at (-) 0.5 percent in 2016, as softening property market and cheap fuel prices exerted downward pressure on overall prices.
- ❖ Services sector dominates the economy. In 2016, it is estimated to have contributed to 73.4 percent of GDP, followed by industry with 26.6 percent of the GDP.

BASIC FACTS

Land area: 6710.2 sq km

Population: 5.6 mn (2016)

Language: English, Chinese, Malay and Tamil

Currency: Singapore dollar (S\$)

GDP: US\$ 297 bn (2016)

Sovereign Rating: AAA (S&P's)

Macroeconomic Outlook

- ❖ Real GDP of Singapore is expected to grow at a rate of 2.9 percent in 2017, up from 2 percent in 2016, mainly driven by significant acceleration in exports of goods and services, accompanied by an offsetting pick-up in imports, supported by demand for components from the export manufacturing sector and imports of capital good.
- ❖ Consumer price inflation will return in 2017 and is expected to increase by an average annual rate of 1.3 percent during the period 2017-21, owing to recovering global prices for oil and industrial products, along with an expansionary fiscal stance that is likely to exert an upward pressure on consumer prices.
- ❖ The Singapore dollar is expected to depreciate slightly to an average of S\$ 1.40: US\$ 1 in 2017, as compared to S\$ 1.38: US\$ 1 in 2016, caused by its accommodative monetary policy, global trade headwinds and dampening local currency- denominated exports.

Table 2.8: Singapore: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	289.2	302.5	308.2	296.8	297.0	305.5	311.0
Real GDP growth (%)	3.9	5.0	3.6	1.9	2.0	2.9	2.0
Consumer price inflation (avg,%)	4.6	2.4	1.0	-0.5	-0.5	1.3	1.6
Population (mn)	5.3	5.4	5.5	5.5	5.6	5.7	5.8
Merchandise exdports fob (US\$ bn)	442.8	447.7	442.7	379.6	361.6	408.2	429.9
Merchandise imports fob (US\$ bn)	371.6	372.6	360.9	296.7	278.8	317.8	341.3
Total int'l reserves (US\$ bn)	259.3	273.1	256.9	247.8	246.6	266.3	271.6
Avg exchange rate (S\$: US\$)	1.25	1.25	1.27	1.14	1.38	1.40	1.42

Note: ^e –Estimate; ^f - Forecast; Source: EIU, IMF

Thailand

Domestic Economy

- ❖ Real GDP growth of Thailand increased to an 3.3 percent in 2016, from 3 percent in 2015, due to increased public spending, which led to the strengthening of private consumption, and fixed capital formation.
- ❖ In absolute terms, GDP amounted to US\$ 407.2 bn in 2016, while the GDP per capita was US\$ 5,910.
- ❖ Consumer price inflation increased to 0.2 percent in 2016, as compared to -0.9 percent in 2015, due to stabilising domestic demand and a mild recovery in global oil prices.
- ❖ Services sector dominates the economy, accounting for 55.3 percent of nation's GDP in 2016, while industry and agriculture account for 35.9 percent and 8.9 percent of GDP, respectively in the same year.

BASIC FACTS

Land area: 514,000 sq km

Population: 68.9 mn (2016)

Language: Thai

Currency: Baht (Bt)

GDP: US\$ 407.2 bn (2016)

Sovereign Rating: BBB+ (S&P's)

Macroeconomic Outlook

- ❖ Real GDP is expected to maintain a growth rate of 3.3 percent in 2017, the same as in 2016, as public investment drives are expanded but import growth accelerates at a faster rate than exports.
- ❖ In 2017 a modest recovery in global commodity prices and firming domestic demand will lead to a gradual increase in inflationary pressures, resulting in consumer prices rising by an average of 0.8 percent, up from 0.2 percent in 2016.
- ❖ The baht is expected to appreciate against the dollar in 2017 with annual average exchange rate expected to be at Bt 34.3: US\$ 1, owing to investor's increasing confidence in Thailand.

Table 2.9: Thailand: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	397.3	420.2	406.4	399.3	407.2	436.8	445.4
Real GDP growth (%)	7.2	2.7	0.9	3.0	3.3	3.3	2.6
Consumer price inflation (avg, %)	3.0	2.2	1.9	-0.9	0.2	0.8	0.9
Population (mn)	67.8	68.1	68.4	68.7	68.9	69.0	69.2
Merchandise exports fob (US\$ bn)	227.7	227.5	226.6	214.0	214.3	228.0	233.4
Merchandise imports fob (US\$ bn)	227.6	227.4	209.4	187.2	177.7	188.6	194.2
Total int'l reserves (US\$ bn)	181.6	167.3	157.1	156.5	171.9	191.9	197.9
Avg exchange rate (Bt : US\$)	31.1	30.7	32.5	34.2	35.3	34.3	35.3

Note: ^e-Estimates; ^f-Forecasts; Source: EIU, IMF

Vietnam

Domestic Economy

- ❖ Real GDP growth of Vietnam moderated to 6.2 percent in 2016 compared to 6.7 percent recorded in the preceding year as a result of the sluggish growth during the first quarter owing to the severe drought.
- ❖ In absolute terms, GDP has increased to an estimated US\$ 201.4 bn in 2016, with GDP per capita at US\$ 2,128.9.
- ❖ Consumer price inflation increased to an estimated 2.7 percent in 2016 from 1.7 percent in the previous year, mainly as a result of low base effects and a weak currency. Increase in property prices and removal of health care subsidies have also contributed to the increase in overall price level.
- ❖ Services was the largest sector in Vietnam's economy, accounting for 44 percent of Vietnam's GDP in 2016. The shares of industry and agriculture in GDP during the same year were 39 percent and 17 percent, respectively.

BASIC FACTS

Land area: 331,051 sq km

Population: 94.6 mn (2016)

Language: Vietnamese; English; minority languages such as Hmong, Thai, Khmer

Currency: Dong (D)

GDP: US\$ 201.4 bn (2016)

Sovereign Rating: BB- (S&P's)

Macroeconomic Outlook

- ❖ Vietnam's economy is expected to grow by 6.3 percent in 2017 as compared to 6.2 percent in 2016. Growth in private consumption aided by rapid wage growth, structural gains in access to credit and spurring of private investment due to liberalised regulations and deeper global economic integration are expected to drive the growth in GDP
- ❖ Consumer price inflation is estimated to grow at 3.4 percent in 2017 compared to 2.7 percent in 2016 mainly driven by demand pull inflation, higher oil prices compared to 2016 and currency weakness.
- ❖ The average exchange rate is expected to depreciate to D 22,928: US\$ 1 in 2017 from D 20,555: US\$ 1 in 2016

Table 2.10: Vietnam: Economic Structure

Economic Indicators	2012	2013	2014	2015	2016	2017 ^f	2018 ^f
GDP (US\$ bn)	155.6	170.5	185.8	191.4	201.4	213.6	222.3
Real GDP growth (%)	5.2	5.4	6.0	6.7	6.2	6.3	6.5
Consumer price inflation (avg., %)	9.1	6.6	4.1	1.7	2.7	3.4	3.8
Population (mn)	90.5	91.5	92.5	93.6	94.6	95.5	96.5
Merchandise exports fob (US\$ bn)	104.8	123.3	138.1	154.7	162.6	191.1	212.2
Merchandise imports fob (US\$ bn)	77.4	97.4	104.7	123.4	138.6	163.9	192.7
Total int'l reserves (US\$ bn)	26.1	26.3	34.6	28.6	36.9	39.4	38.8
Avg exchange rate (D: US\$)	20,859	21,017	21,189	21,958	20,555	22,928	24,136

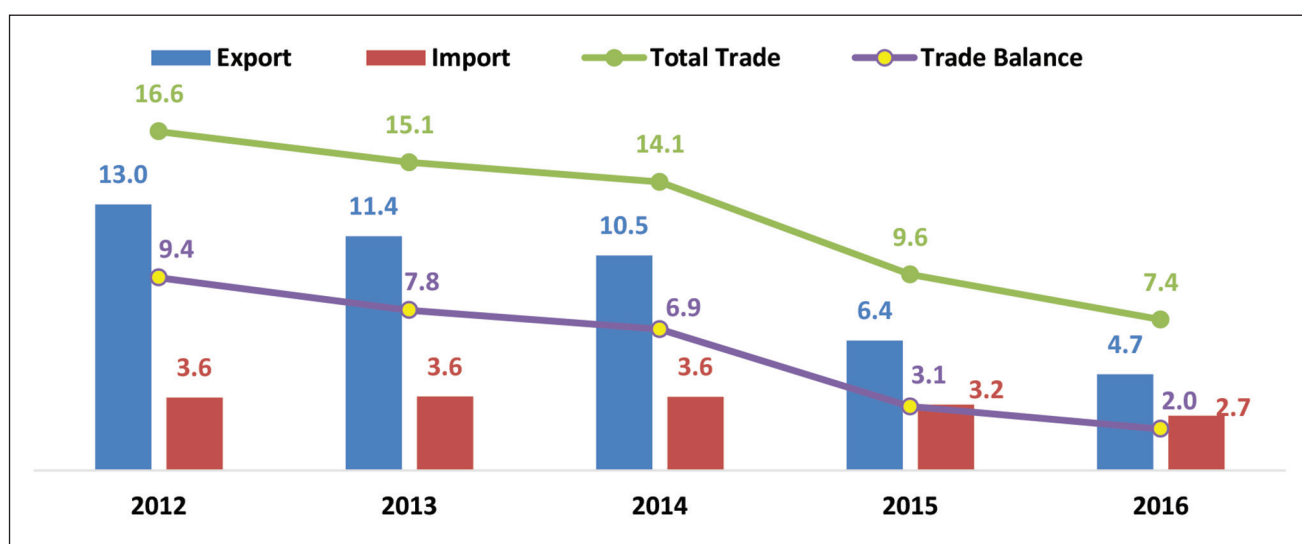
Note: ^e-Estimates; ^f-Forecasts; Source: EIU, IMF

3. INTERNATIONAL TRADE SCENARIO OF ASEAN COUNTRIES

Brunei Darussalam

- Over the past five years, Brunei's total trade has witnessed a steady decline from US\$ 16.6 billion in 2012 to US\$ 7.4 billion in 2016. Over the last year, Brunei's exports have declined by 26 percent to US\$ 4.7 billion in 2016, as compared to US\$ 6.4 billion recorded in the preceding year. Brunei's imports also decreased by 17.2 percent to US\$ 2.7 billion in 2016, from US\$ 3.2 billion recorded in 2015.

Figure 3.1: Brunei's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Brunei's Major Exports

- Mineral Fuels (84.8% of total exports in 2016)
- Machinery & mechanical appliances (3.1%)
- Miscellaneous Chemical products (2.4%)
- Organic chemicals (2.3%)
- Electrical machinery and equipment (1.6%)

Brunei's Major Imports

- Machinery & mechanical appliances (14.5% of total imports in 2016)
- Mineral fuels (8.6%)
- Transport vehicle (8.4%)
- Articles of iron and steel (8%)
- Electrical machinery and equipment (6.9%)

Brunei's Major Export Destinations

- Japan (33.7% of total exports in 2016), South Korea (16.7%), India (9.1%), Thailand (8.8%) and Singapore (7.2%)

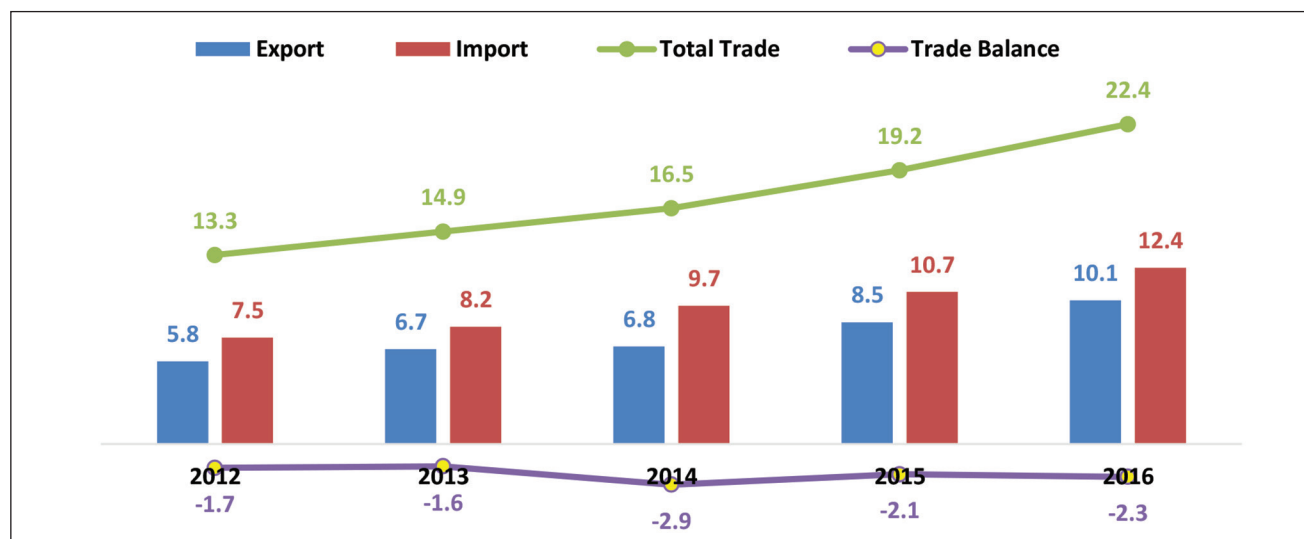
Brunei's Major Import Sources

- Malaysia (21.1% of total imports in 2016), Singapore (19.2%), China (13%), USA (11.6%), Japan (4.3%), and Thailand (3.8%)

Cambodia

- ❖ Cambodia's total trade has grown at a CAGR of 11 percent over the past five years. Over the last year, Cambodia's exports increased by 18.8 percent to US\$ 10.1 billion in 2016, compared to US\$ 8.5 billion in 2015. Cambodia's imports also increased by 15.9 percent to US\$ 12.4 billion in 2016 from US\$ 10.7 billion in 2015.

Figure 3.2: Cambodia's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Cambodia's Major Exports

- Knitted or crocheted apparels and clothing (60.7% of total exports in 2016)
- Footwear (7.8%)
- Non-knitted apparel and clothing (5.2%)
- Electrical machinery and equipment (4.3%)
- Transport vehicles (3.5%)

Cambodia's Major Imports

- Knitted or crocheted fabric (17.8% of total imports in 2016)
- Transport vehicles (9.2%)
- Mineral fuels (8.9%)
- Man-made staple fibres (7.9%)
- Machinery and mechanical appliances (7.1%)

Cambodia's Major Export Destinations

- USA (21.3% of total exports in 2016), UK (9.5%), Germany (9%), Japan (8.2%), Canada (6.5%) and China (6.1%)

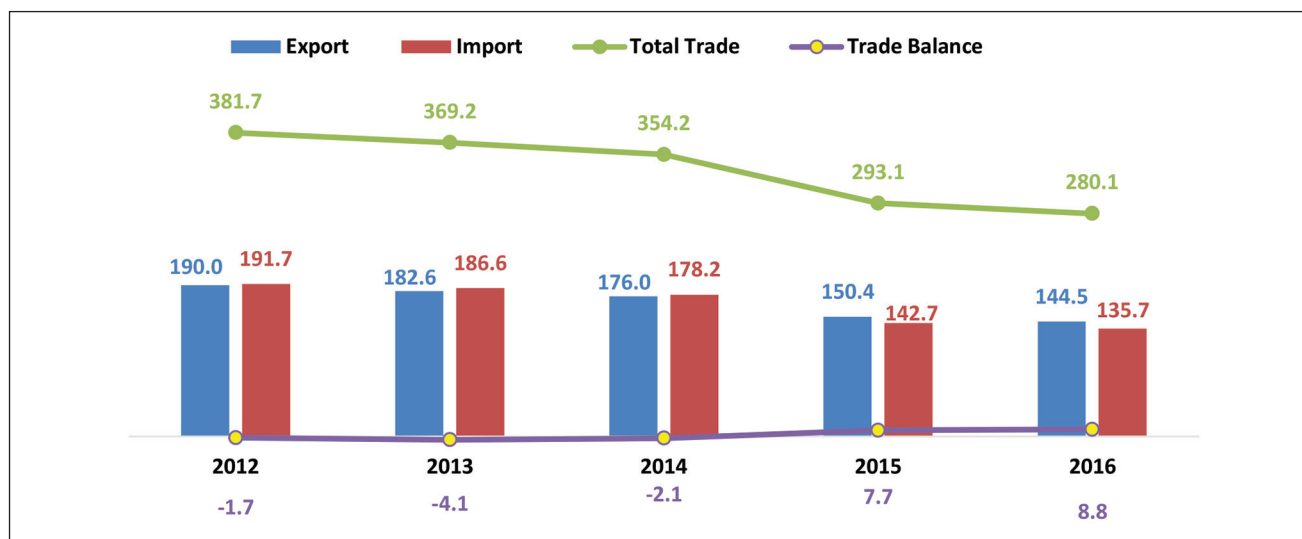
Cambodia's Major Import Sources

- China (36.8% of total imports in 2016), Thailand (15.4%), Vietnam (11.4%), Taiwan (5.7%), and Singapore (4.6%)

Indonesia

- Over the past five years, Indonesia's total trade has been steadily declining at a negative CAGR of 6 percent, amounting to US\$ 280.1 bn in 2016, as compared to US\$ 381.7 bn in 2012. Indonesia's exports moderated by 3.9 percent to US\$ 144.5 billion in 2016, as compared to US\$ 150.4 billion in 2015. Imports also moderated by 4.9 percent in 2016 to US\$ 135.7 billion as compared to US\$ 142.7 billion in 2015.

Figure 3.3: Indonesia's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Indonesia's Major Exports

- Mineral fuels (19.3% of total exports in 2016)
- Animal, vegetable fat and oil (12.6%)
- Electrical machinery and equipment (5.6%)
- Pearls, precious stones & metals (4.4%)
- Transport vehicle (4.1%)

Indonesia's Major Imports

- Machinery and mechanical appliances (15.5% of total imports in 2016)
- Mineral fuels (14.2%)
- Electrical machinery and equipment (11.4%)
- Plastics and its articles (5.2%)
- Iron and steel (4.6%)

Indonesia's Major Export Destinations

- China (11.6% of total exports in 2016), USA (11.2%), Japan (11.1%), Singapore (7.8%), and India (7%)

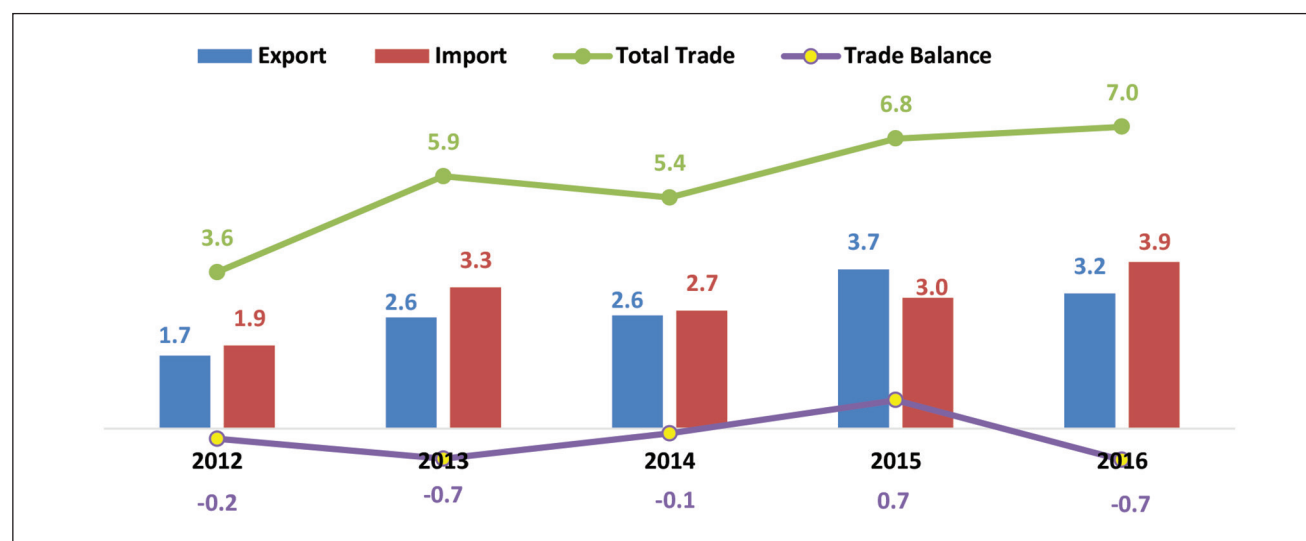
Indonesia's Major Import Sources

- China (22.7% of total imports in 2016), Singapore (10.7%), Japan (9.6%), Thailand (6.4%), and USA (5.4%)

Lao PDR

- ❖ Lao PDR's total trade has increased at a CAGR of 14.2 percent over the past five years, to reach US\$ 7 bn in 2016, as compared to US\$ 3.6 bn in 2012. Lao PDR's exports moderated by 13.5 percent to US\$ 3.2 billion in 2016, as compared to US\$ 3.7 billion recorded in the preceding year. On the other hand, Lao PDR's imports increased by 30 percent to US\$ 3.9 billion in 2016, as compared to US\$ 3 billion recorded in 2015.

Figure 3.4: Lao PDR's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Lao PDR's Major Exports

- Ores, slag and ash (31.1% of total exports in 2016)
- Copper and its articles (11.1%)
- Electrical machinery and equipment (10.8%)
- Beverages and spirits (5.8%)
- Edible fruits and nuts (5.1%)

Lao PDR's Major Imports

- Electrical machinery and equipment (16.7% of the total imports in 2016)
- Mineral fuels (15.4%)
- Transport vehicles (15.1%)
- Machinery and mechanical appliances (9.2%)
- Iron and steel (4.5%)

Lao PDR's Major Export Destinations

- China (40.1% of total exports in 2016), Thailand (29.3%), Vietnam (16.1%), India (2.8%), and Japan (1.8%).

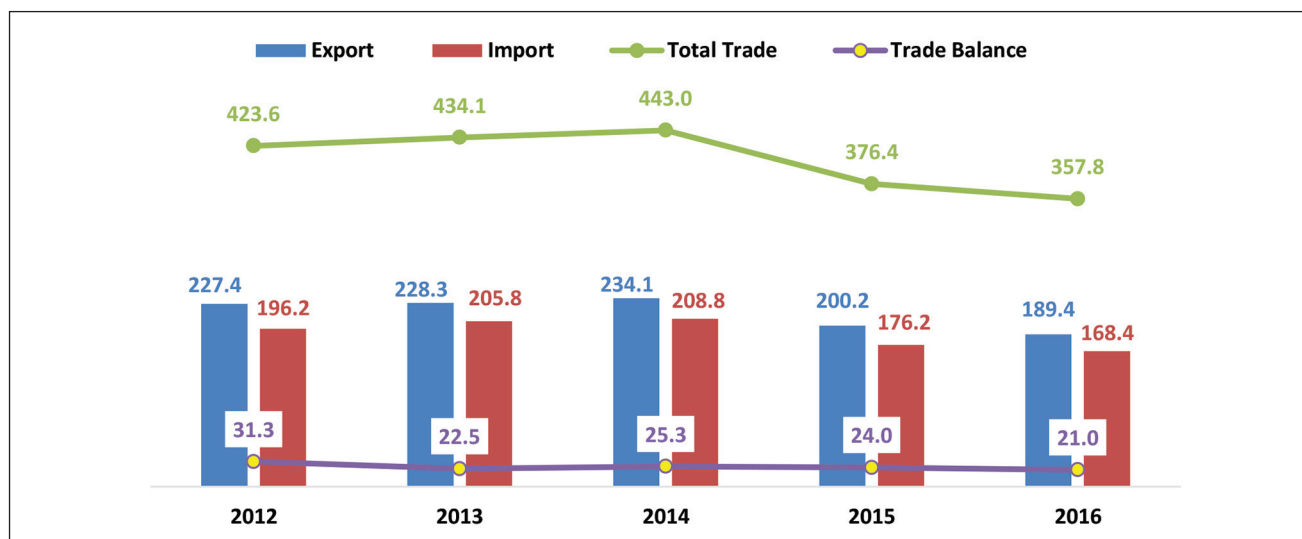
Lao PDR's Major Import Sources

- Thailand (61.2% of the total imports in 2016), China (18.9%), Vietnam (10.4%), Japan (2.1%), South Korea (1.7%), and Indonesia (1.3%)

Malaysia

- Malaysia's total trade has declined from US\$ 376.4 billion in 2015 to US\$ 357.8 billion in 2016, marking two consecutive years of declining trade. Malaysia's exports moderated by 5.4 percent to US\$ 189.4 billion in 2016, as compared to US\$ 200.2 billion recorded in the preceding year. Malaysia's imports also decreased by 4.4 percent to US\$ 168.4 billion in 2016, as compared to US\$ 176.2 billion recorded in 2015.

Figure 3.5: Malaysia's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Malaysia's Major Exports

- Electrical machinery and equipment (30.8% of total exports in 2016)
- Mineral fuels (14%)
- Machinery & mechanical appliances (11.6%)
- Animal, vegetable fats & oils (6.6%)
- Optical and photographic apparatus (3.8%)

Malaysia's Major Imports

- Electrical machinery and equipment (27.6% of the total imports in 2016)
- Machinery & mechanical appliances (11.9%)
- Mineral fuels (10.3%)
- Plastics and articles (4.1%)
- Transport vehicles (3.4%)

Malaysia's Major Export Destinations

- Singapore (14.6% of total exports in 2016), China (12.5%), USA (10.2%), Japan (8.1%), and Thailand (5.6%).

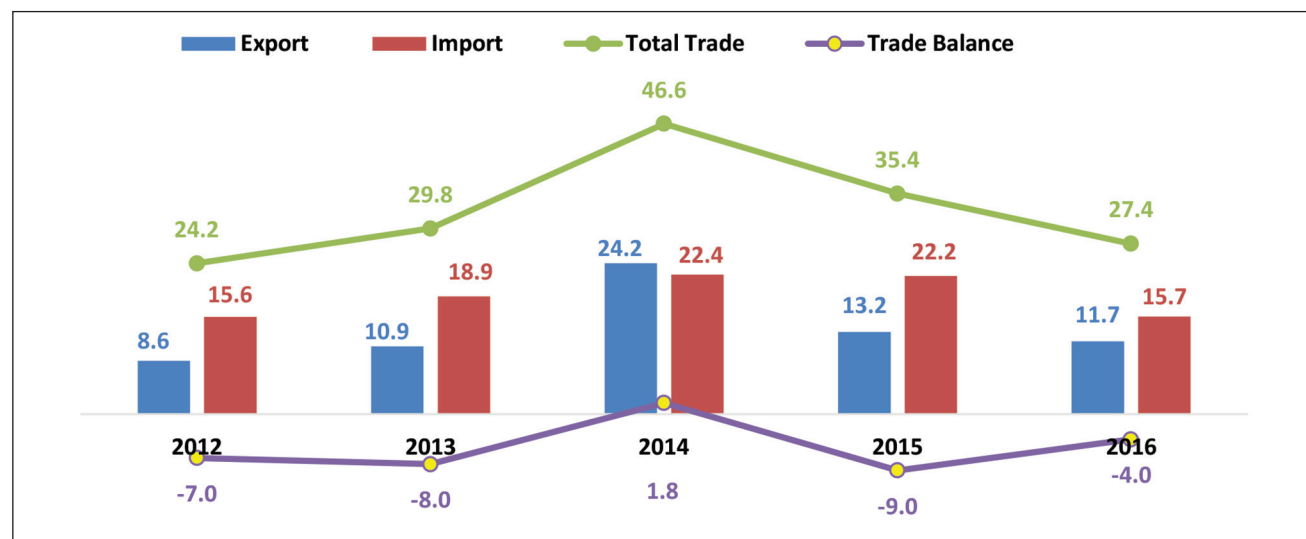
Malaysia's Major Import Sources

- China (20.4% of the total imports in 2016), Singapore (10.4%), Japan (8.2%), USA (8%), Thailand (6.1%), and Taiwan (6%)

Myanmar

- ❖ Myanmar's total trade declined for the second consecutive year, by 22.7 percent to US\$ 27.4 billion in 2016, as compared to US\$ 35.4 billion recorded in the preceding year. Myanmar's exports as well as imports decreased by 11.6 percent and 29.3 percent respectively, to US\$ 11.7 billion and US\$ 15.7 in 2016, as compared to US\$ 13.2 billion and US\$ 22.2 billion respectively, recorded in 2015.

Figure 3.6: Myanmar's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Myanmar's Major Exports

- Mineral fuels (28.2% of total exports in 2016)
- Non-knitted articles of apparel and clothing (12.7%)
- Edible vegetables and roots (12.2%)
- Sugar and sugar confectionery (9.5%)
- Cereals (5.7%)

Myanmar's Major Imports

- Transport vehicles (15.5% of the total imports in 2016)
- Mineral fuels (11.3%)
- Machinery & mechanical appliances (10.1%)
- Sugar and sugar confectionery (8.8%)
- Electrical machinery & equipment (7.2%)

Myanmar's Major Export Destinations

- China (40.8% of total exports in 2016), Thailand (19.2%), India (8.9%), Singapore (7.6%), and Japan (5.7%).

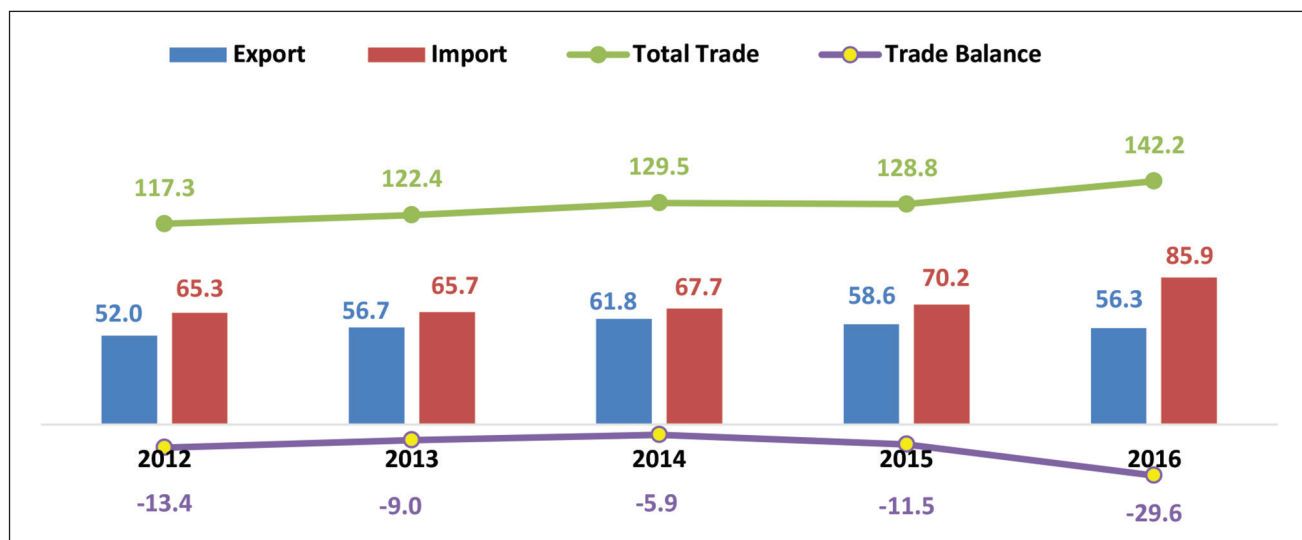
Myanmar's Major Import Sources

- China (34.4% of the total imports in 2016), Singapore (14.5%), Thailand (12.7%), Japan (8%), and India (7%)

Philippines

- Philippines' total trade has increased at a CAGR of 3.9 percent over the past five years, from US\$ 117.3 bn in 2012 to US\$ 142.2 bn in 2016. Philippines exports declined by 3.9 percent to US\$ 56.3 billion in 2016, as compared to US\$ 58.6 billion recorded in the previous year. On the other hand, Philippines imports increased by 22.4 percent to an estimated US\$ 85.9 billion in 2016, as compared to US\$ 70.2 billion recorded in 2015.

Figure 3.7: Philippines's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Philippines' Major Exports

- Electrical machinery & equipment (44.8% of the total exports in 2016)
- Machinery & mechanical appliances (13.8%)
- Wood and its articles (5.1%)
- Optical and photographic apparatus (4.4%)
- Transport vehicles (2.5%)

Philippines' Major Imports

- Electrical machinery & equipment (24.1% of the total imports in 2016)
- Machinery & mechanical appliances (13.6%)
- Mineral fuels (9.8%)
- Transport vehicles (8.9%)
- Plastics and its articles (3.6%)

Philippines' Major Export Destinations

- Japan (20.7% of total exports in 2016), USA (15.4%), Hong Kong (11.7%), China (11%) and Singapore (6.6%)

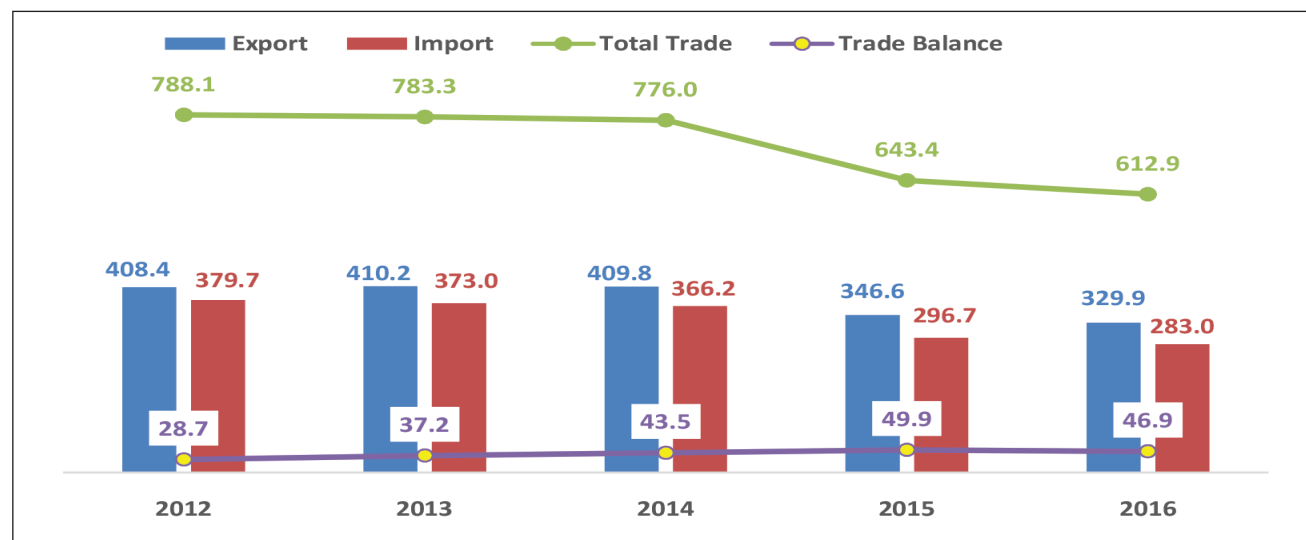
Philippines' Major Import Sources

- China (18.5% of the total imports in 2016), Japan (11.9%), USA (8.9%), Thailand (7.8%) and South Korea (6.5%)

Singapore

- Over the past five years, Singapore's total trade has witnessed a steady decline from US\$ 788.1 bn in 2012 to US\$ 612.9 bn in 2016. Singapore's exports decreased by 4.8 percent in 2016 to US\$ 329.9 billion from that of US\$ 346.6 billion in 2015. Singapore's imports also moderated by 4.6 percent in 2016 to US\$ 283 billion as compared to US\$ 296.7 billion in 2015.

Figure 3.8: Singapore's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Singapore's Major Exports

- Electrical machinery & equipment (34.8% of total exports in 2016)
- Machinery and mechanical appliances (14.9%)
- Mineral fuels (11.4%)
- Optical & photographic apparatus (7.4%)
- Organic Chemicals (4.6%)

Singapore's Major Imports

- Electrical machinery & equipment (30% of total imports in 2016)
- Mineral fuels (18%)
- Machinery and mechanical appliances (15%)
- Pearls, precious stones & metals (4%)
- Optical & photographic apparatus (3.9%)

Singapore's Major Export Destinations

- China (13% of total exports in 2016), Hong Kong (12.6%), Malaysia (10.6%), Indonesia (7.8%), USA (6.9%) and Taiwan (4.5%)

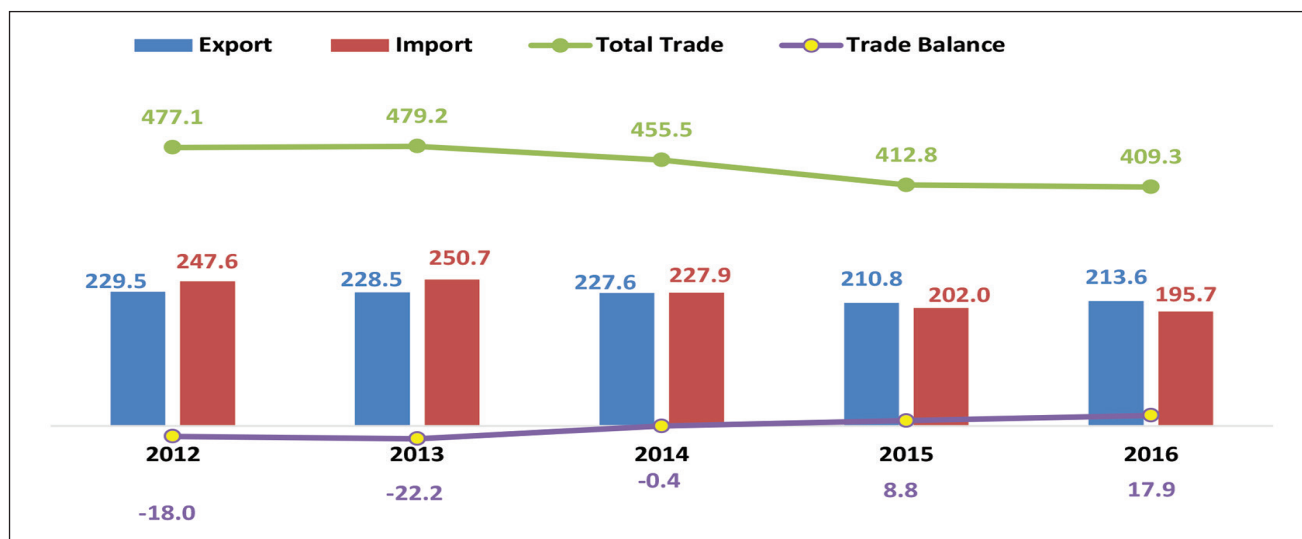
Singapore's Major Import Sources

- China (14.3% of total imports in 2016), Malaysia (11.4%), USA (10.9%), Taiwan (8.2%), Japan (7%) and South Korea (6%)

Thailand

- ❖ Thailand's total trade has witnessed a decline successively for the past three years to reach US\$ 409.3 bn in 2016, as compared to US\$ 477.1 bn in 2012. Thailand's exports increased by 1.3 percent to US\$ 213.6 billion in 2016, over the previous year's total of US\$ 210.8 billion. Imports stood at an estimated US\$ 195.7 billion in 2016, recording a decrease of 3.1 percent over the previous year's US\$ 202 billion.

Figure 3.9: Thailand's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Thailand's Major Exports

- Machinery & mechanical appliances (17.4% of total exports in 2016)
- Electrical machinery & equipment (13.9%)
- Transport vehicles (12.7%)
- Pearls, precious stones & metals (6.6%)
- Rubber and its articles (5.7%)
- Plastics and articles (5.5%)

Thailand's Major Imports

- Electrical machinery & equipment (19.7% of total imports in 2016)
- Machinery & mechanical appliances (13.4%)
- Mineral fuels (12.6%)
- Iron and steel (4.9%)
- Transport vehicles (4.5%)

Thailand's Major Export Destinations

- USA (11.4% of total exports in 2016), China (11%), Japan (9.6%), Hong Kong (5.3%), Australia (4.8%) and Malaysia (4.5%)

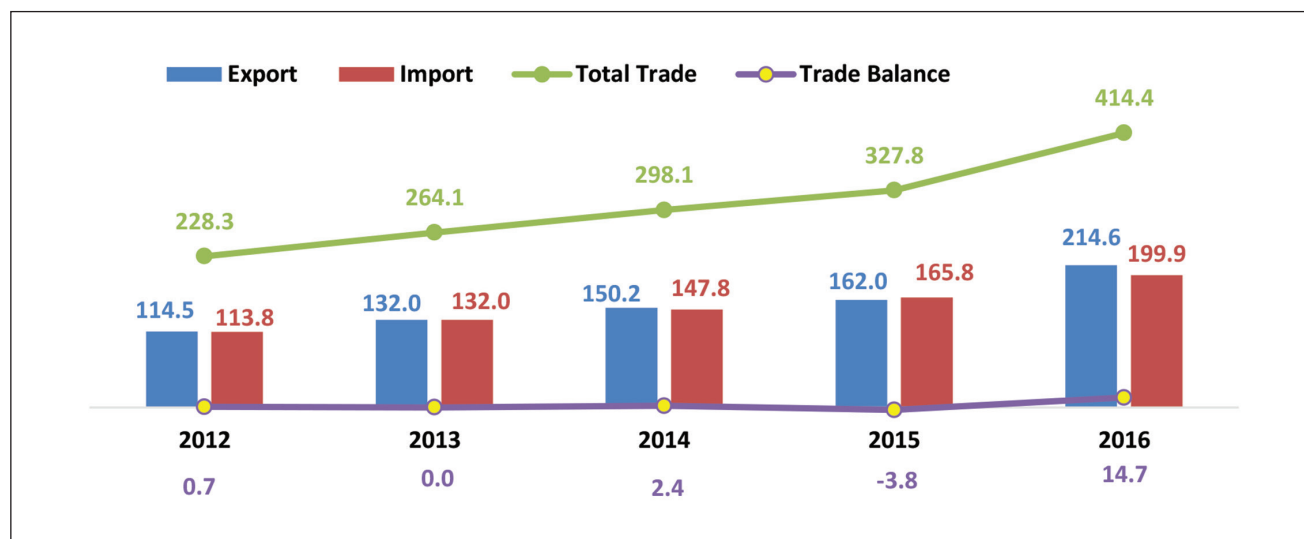
Thailand's Major Import Sources

- China (21.6% of total imports in 2016), Japan (15.8%), USA (6.2%), Malaysia (5.6%), and South Korea (3.7%)

Vietnam

- Vietnam's total trade has risen at a CAGR of 12.7 percent over the past five years, from US\$ 228.3 bn in 2012 to US\$ 414.4 bn in 2016. Exports of Vietnam rose to US\$ 214.6 billion in 2016 from US\$ 162 billion in 2015, recording a rise of 32.5 percent. Imports have also increased by 20.6 percent in 2016 to US\$ 199.9 billion from US\$ 165.8 billion in the previous year.

Figure 3.10: Vietnam's International Trade (US\$ bn)



Source: ITC, Geneva and Exim Bank Analysis

Vietnam's Major Exports

- Electrical machinery & equipment (36.1% of total exports in 2016)
- Footwear (8.4%)
- Machinery & mechanical equipment (6.1%)
- Knitted apparel and clothing (6%)
- Non-knitted apparel and clothing (5.5%)

Vietnam's Major Imports

- Electrical machinery & equipment (22.8% of total imports in 2016)
- Machinery & mechanical equipment (10.5%)
- Plastic and its articles (4.8%)
- Iron and steel (4.4%)
- Mineral fuels (3.8%)

Vietnam's Major Export Destinations

- USA (20.7% of total exports in 2016), China (10.2%), Japan (8.7%), South Korea (5.5%) and Hong Kong (4.3%)

Vietnam's Major Import Sources

- China (29.8% of total imports in 2016), South Korea (16.6%), Japan (8.6%) and Taiwan (6.6%)

4. RESURGENT INDIA: A MACROECONOMIC OVERVIEW

India's diversified economy encompasses modern agriculture, an array of services, and a wide range of industries. It is the world's 7th largest economy based on nominal GDP¹⁰ and the world's 3rd largest economy based on GDP measured in PPP terms¹¹ in 2016. According to the IMF, India's economy has witnessed a buoyant growth in recent years, owing to the implementation of critical structural reforms, favourable terms of trade, and lower external vulnerabilities. As a result, the fundamentals of the Indian economy have strengthened, with robust economic growth, strong fiscal consolidation, low current account deficit, higher agricultural output, growing FDI, low inflation and higher wages in rural areas.

India's Gross Domestic Product (GDP) has been progressively expanding over the recent years and had witnessed a growth rate of 8 percent in FY 2015-16, the fastest pace in 5 years, supported by investment and urban consumption, followed by a modest slowdown in FY 2016-17 to 7.1 percent, owing to certain policy initiatives and changes including demonetization initiative, which had caused a temporary cash crunch in the economy in Q3 of FY 2016-17. India's GDP per capita has also grown at a CAGR of 3 percent, from US\$ 1,474.8 in FY 2012-13 to US\$ 1,703.8 in FY 2016-17 (**Table 4.1**).

India has been consistently moving towards a low current account deficit, which has declined from 4.8 percent of GDP in FY 2012-13 to 0.7 percent in FY 2016-17, as well as lowering consumer price inflation, which also declined from 10.1 percent in FY 2012-13 to 3.8 percent in FY 2016-17. According to the World Bank¹², India remains the fastest growing economy in the world and it will get a big boost from its approach to GST which will - reduce the cost of doing business for firms, reduce logistics costs of moving goods across states, while ensuring no loss in equity.

Table 4.1: India's Economic Performance – Select Indicators

Indicators	2012-13	2013-14	2014-15	2015-16	2016-17
GDP at current prices (US\$ Trn)	1.86	1.92	2.04	2.13	2.26
GDP Growth Rate (%)	5.5	6.4	7.5	8.0	7.1
GDP per capita (US\$ at current prices)	1474.8	1500.1	1574.6	1628.0	1703.8
Inflation rate (CPI, annual avg. %)	10.1	9.3	5.8	4.9	3.8
Population (Mn)	1263.6	1279.5	1295.3	1311.1	1326.8
Current account balance (% of GDP)	-4.8	-1.7	-1.3	-1.1	-0.7
Foreign Exchange Reserves (US\$ bn)	292.0	304.2	341.6	360.2	370.0

Source: Economic Survey, Various issues; Union Budget, RBI Monthly Bulletin, Annual Report & Weekly Statistical Supplement; Ministry of Finance; CSO; EIU; NASSCOM; Ministry of Commerce & Industry; Institute of International Finance (IIF); WEO, IMF.

¹⁰IMF World Economic Outlook, October 2017

¹¹World Bank Database

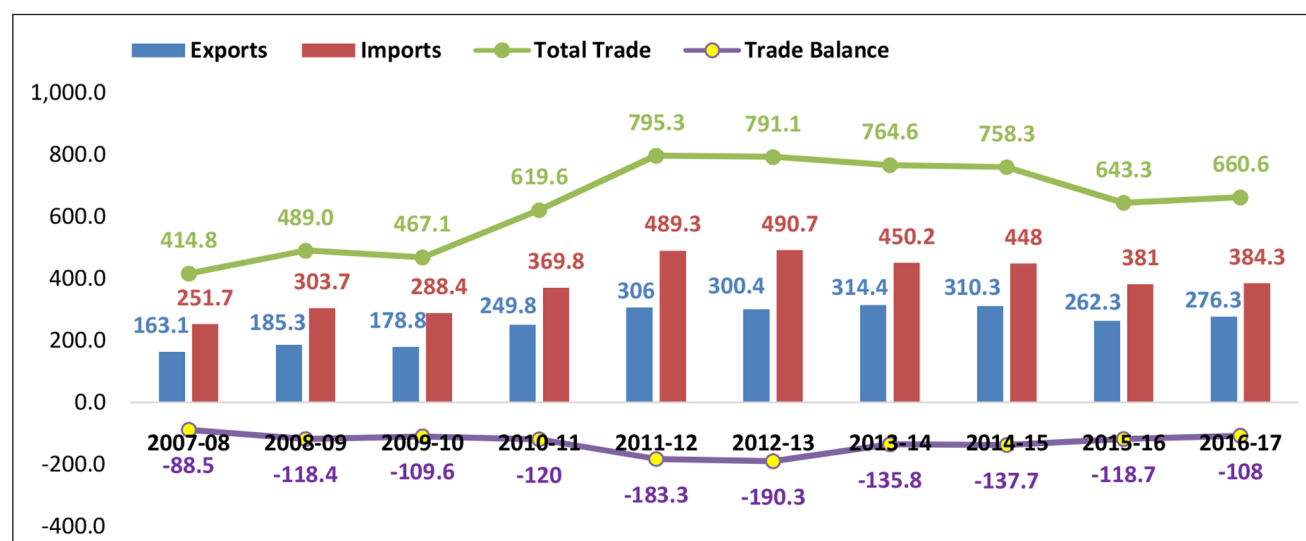
¹²World Bank, "India Development Update: Unlocking Women's Potential", May 2017

International Trade

India's total trade has been steadily increasing over the past decade, at a CAGR of 4.8 percent and amounted to US\$ 660.6 billion in FY 2016-17, as compared to US\$ 414.8 billion in FY 2007-08 (**Figure 4.1**). India's share in global merchandise trade stood at 1.9 percent in 2016, up from 1.1 percent in 2007.

Over the past decade, India's merchandise exports have increased at a CAGR of 5.4 percent to reach US\$ 276.5 billion during FY 2016-17, as compared to US\$ 163.1 billion in FY 2007-08. India's share in global merchandise exports stood at 1.7 percent in 2016, up from 1.1 percent in 2007. On the other hand, India's merchandise imports have also increased at a CAGR of 4.3 percent to US\$ 384.3 billion during FY 2016-17, as compared to US\$ 251.7 billion in FY 2007-08. Over the previous decade, India's share in global merchandise imports increased to 2.2 percent in 2016, up from 1.6 percent in 2007 (**Table 4.2**). Consequently, India ranked as the 20th largest exporter globally, and the 14th largest importer globally in 2016. Exports, mainly non-oil, have recovered in FY 2016-17, after two consecutive years of decline, mainly driven by price effects.

Figure 4.1: India's International Trade (US\$ bn)



Source: Ministry of Commerce and Industry, Govt. of India

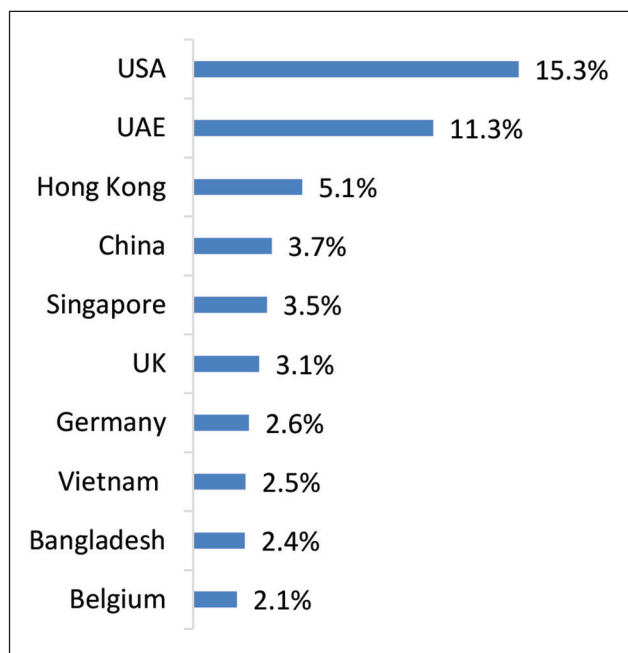
Table 4.2: Growing Share of India in Global Merchandise Trade

Indicators	2007	2010	2012	2013	2014	2015	2016
India's Share in Global Merchandise Exports (%)	1.1	1.5	1.6	1.7	1.7	1.6	1.7
India's Share in Global Merchandise Imports (%)	1.6	2.3	2.6	2.4	2.4	2.3	2.2
India's Share in Global Merchandise Trade (%)	1.3	1.9	2.1	2.1	2.1	2.0	1.9

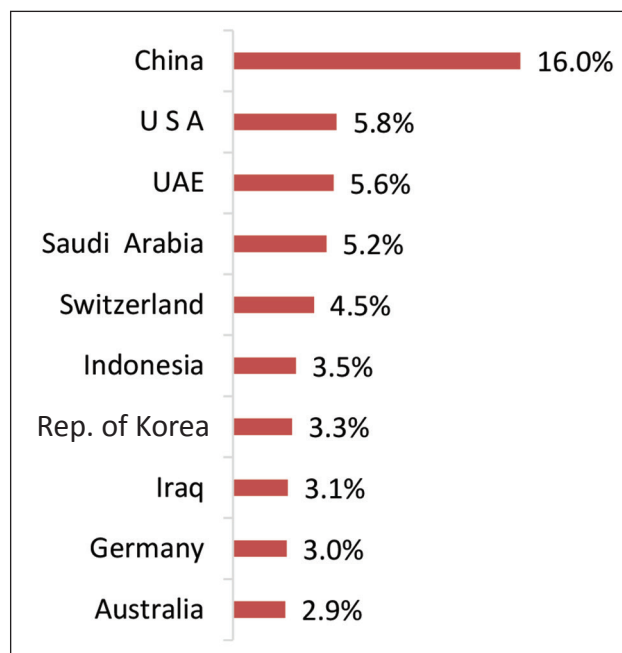
Source: ITC, Geneva and Exim Bank Analysis

India's top trading partners in FY 2016-17 include China, USA, UAE, Saudi Arabia and Hong Kong. While India is a net importer from China and Saudi Arabia, it is a net exporter to USA, UAE and Hong Kong¹³. India's top ten export destinations and import sources, along with their shares in India's total exports and total imports, are given in **Figure 4.2** and **Figure 4.3** respectively.

**Figure 4.2 India's Top Export Destinations
(FY 2016-17)**



**Figure 4.3 India's Top Import Sources
(FY 2016-17)**



Source: Ministry of Commerce and Industry, Government of India

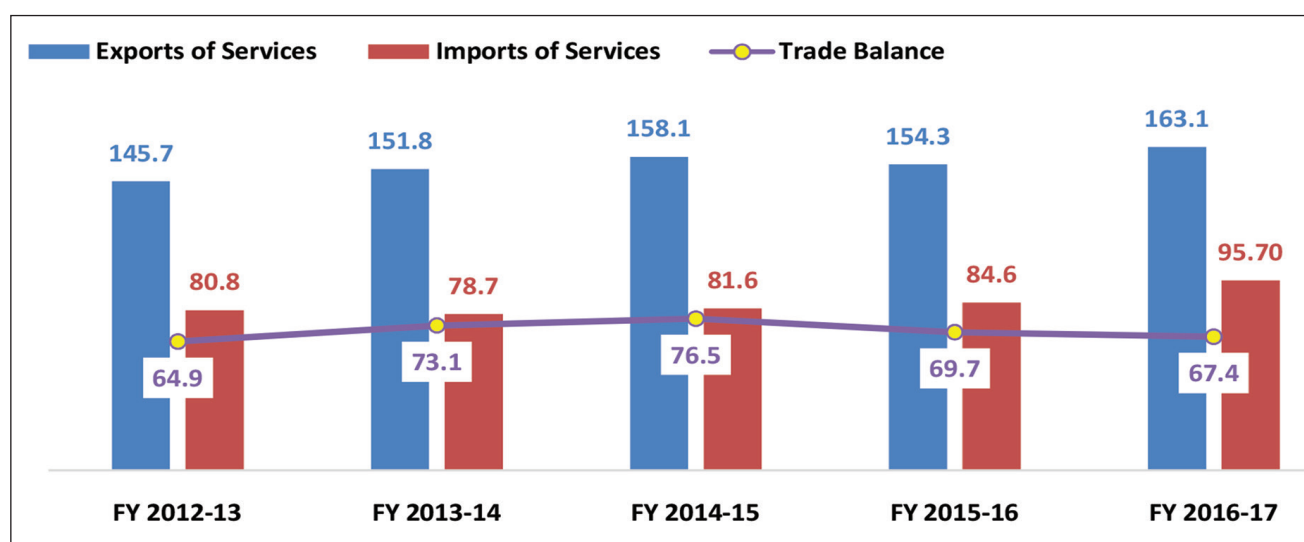
India's Trade in Services

India has retained its position as a net exporter of services over the years. India's services exports increased at a CAGR of 2.3 percent to US\$ 163.1 billion during FY 2016-17, as compared to US\$ 145.7 billion in FY 2012-13, while the service trade balance has increased from US\$ 64.9 billion in FY 2012-13 to US\$ 67.4 billion in FY 2016-17. India's services import increased to US\$ 95.7 billion in FY 2016-17, as compared to US\$ 84.6 billion in FY 2015-16 (**Figure 4.4**).

India's share in global services exports has increased from 2 per cent in 2005 to 3.3 percent in 2016, making India the 8th largest service exporter in the world in 2016, 7 positions up from the rank 15 in 2005.

¹³Based on Data from Ministry of Commerce and Industry, Govt of India, and Exim Bank Analysis

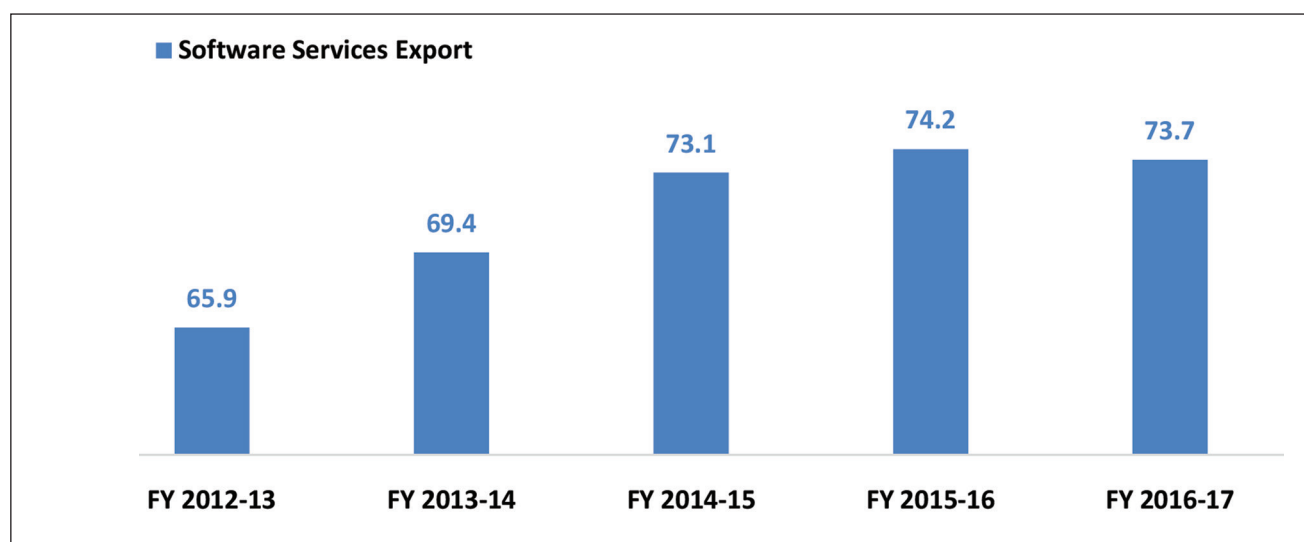
Figure 4.4: India's International Trade in Services (US\$ bn)



Source: Reserve Bank of India

Software services constitute nearly half of the total services exports of India. Over the past years, the software services exports of India have been consistently rising, except for a marginal fall in n FY 2016-17 (**Figure 4.5**).

Figure 4.5: India's Software Services Exports (US\$ bn)

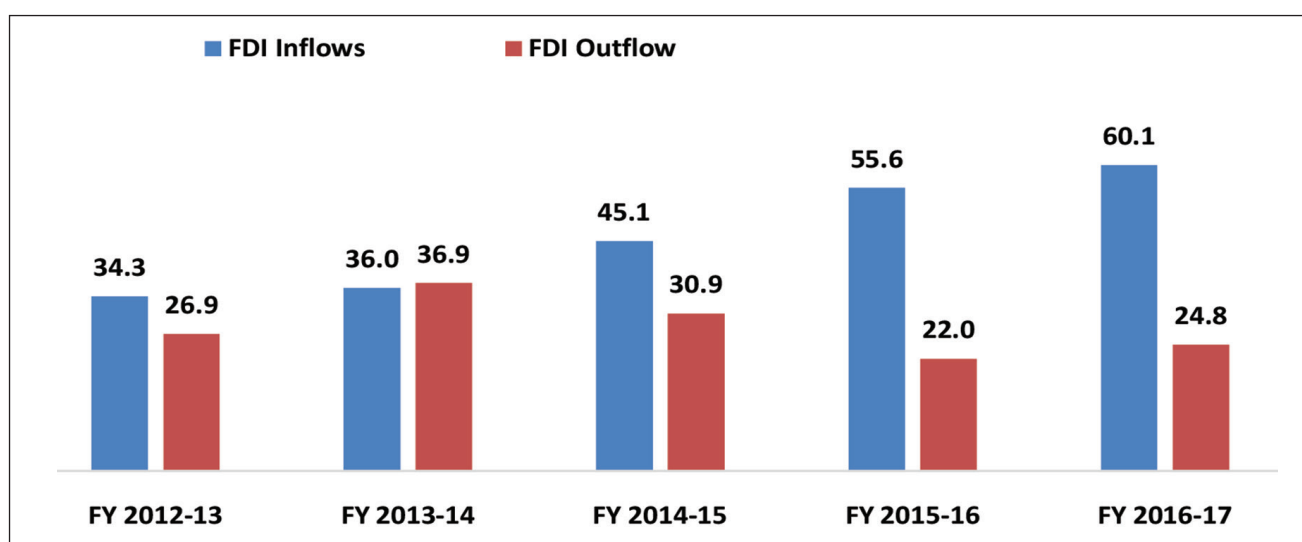


Source: Reserve Bank of India

Investment Scenario in India

FDI inflow into India increased to US\$ 60.1 billion in FY 2016-17, as compared to US\$ 34.3 billion in FY 2012-13, mainly due the two-fold increase in equity inflows during the period. On the other hand, FDI outflows from India stood at US\$ 24.9 billion in FY 2016-17, witnessing a positive growth from US\$ 22 billion in FY 2015-16, after declining for two consecutive years (**Figure 4.6**).

Figure 4.6: India's FDI Inflows and Outflows (US\$ bn)



Source: Reserve Bank of India

India's top five FDI investors in FY 2016-17 include Mauritius, Singapore, Japan, Netherlands, and USA (**Figure 4.7**), while India's top destinations for FDI¹⁴ are Singapore, Mauritius, Netherlands, USA, United Kingdom and UAE (**Figure 4.8**).

Figure 4.7: Top FDI Investing Countries (FY 2016-17)

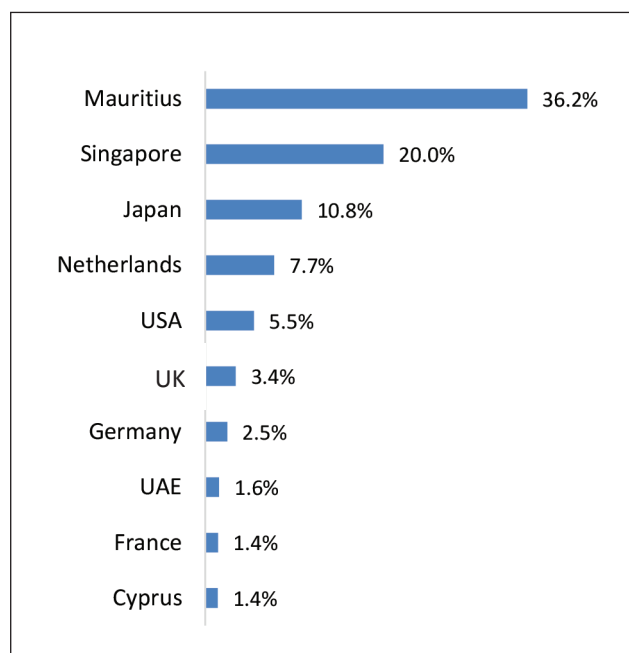
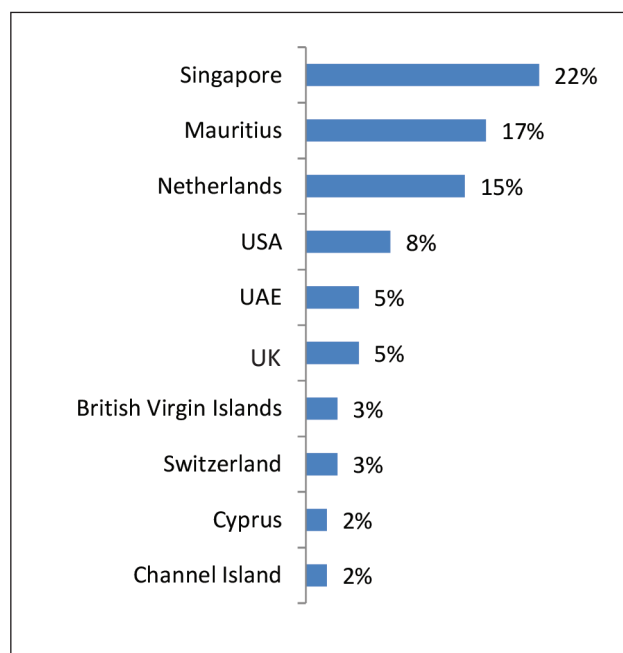


Figure 4.8: Top FDI Destination Countries (FY 2016-17)

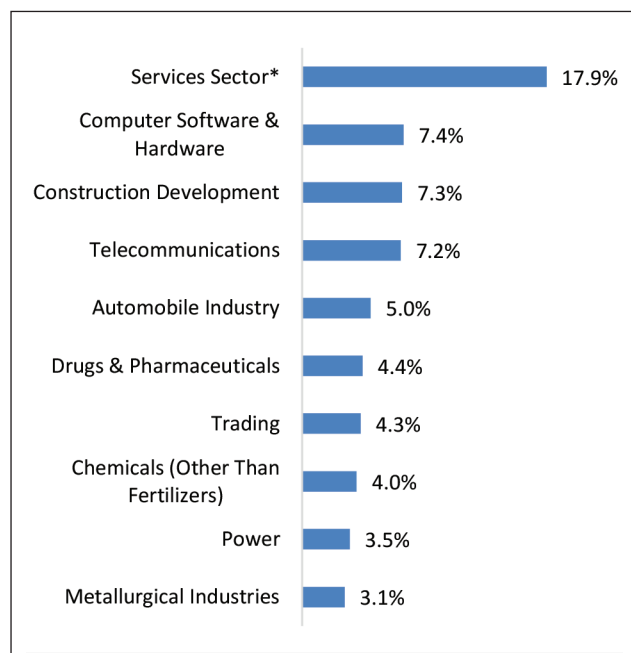


Source: Department of Industrial Policy and Promotion, Government of India, Reserve Bank of India and Exim Bank Analysis

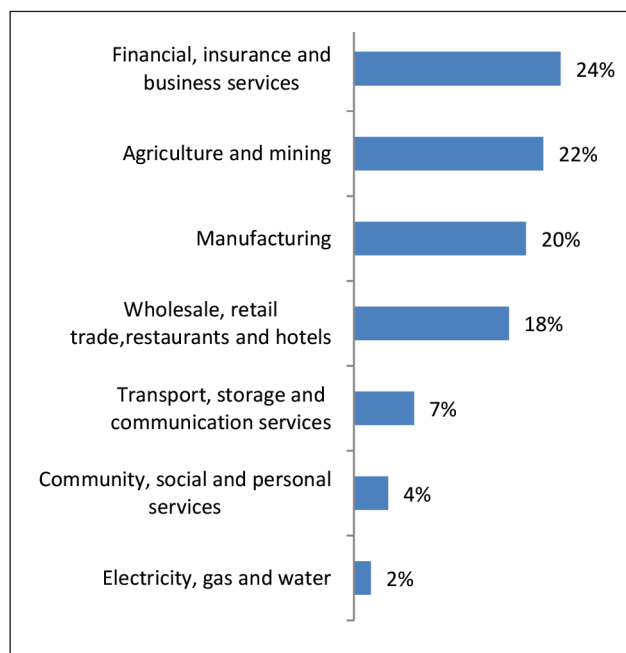
¹⁴Based on RBI data and Exim Bank analysis

Service sector is the top FDI attracting sector within India, with a share of 17.9 percent in India's total FDI inflows in FY 2016-17, followed by computer software and hardware sector, construction development, telecommunication, and automobile sector (**Figure 4.9**). In terms of FDI outflows, the top sector in FY 2016-17 is financial, insurance and business services sector, with a share of 24 percent in India's total FDI outflows in the period, followed closely by agriculture and mining (22%), manufacturing (20%) and wholesale, retail trade, restaurants and hotels (18%)¹⁵ (**Figure 4.10**).

**Figure 4.9: Sector-wise FDI Inflows
(FY 2016-17)**



**Figure 4.10: Sector-wise FDI outflows
(FY 2016-17)**



Note: FDI Outflows include Equity, Loan and Guarantee Issued (Approved ODI)

*Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

Source: Reserve Bank of India, DIPP Govt of India and Exim Bank Analysis

¹⁵Based on RBI data and Exim Bank analysis

5. STRENGTHENING ASEAN-INDIA PARTNERSHIP

India's 'Look East' Policy adoption was an initiative towards developing extensive economic and strategic relationships with the ASEAN nations. Reflecting the Government of India's emphasis to the initiative, the policy has today transformed into the "Act East" Policy. ASEAN-India dialogue relations emerged into a sectoral dialogue partnership in 1992 and gradually grew into a full dialogue partnership in December 1995. Since then, India has progressed from being a dialogue partner to a strategic partner. The economic and trade linkages, which saw an expansion of trade volumes, demonstrate the intensity of economic engagements between India and ASEAN. In 2017, ASEAN and India commemorated 25 years of dialogue partnership and 15 years of Summit level partnership.

The region comprising ASEAN and India together represents a combined population of 1.85 billion which is a quarter of the global population and a GDP of over US\$ 3.8 trillion, creating one of the largest economic spaces in the world¹⁶. India and ASEAN have been cooperating with each other, over the years, by way of implementation of various projects in the fields of agriculture, science & technology, space, environment & climate change, human resource development, capacity building, new and renewable energy, tourism, people-to-people contacts and connectivity among others. Programmes and projects totalling over US\$ 48 million have been proposed since September 2011 till date to ASEAN, and are under various stages of processing¹⁷. Some of the prominent projects include;

- Space Project envisaging establishment of a tracking, data reception/data processing station in Ho Chi Minh City, Vietnam;
- Upgradation of telemetry tracking and command station in Biak, Indonesia;
- Setting up of centres of excellence in software development & training in CLMV countries;
- e-Network for provision of tele-medicine and tele-education in CLMV countries, quick impact projects in CLMV etc.

ASEAN-India Comprehensive Economic Cooperation Agreement

The ASEAN - India Framework Agreement on Comprehensive Economic Cooperation (CECA) was signed between India and ASEAN on October 8, 2003 in Bali, Indonesia, to institutionalise a framework for future economic cooperation. The agreement covered the following objectives –

- Trade in Goods Agreement
- Trade in Services and Investment Agreement

These together form the ASEAN - India Free Trade Area (AIFTA). The ASEAN-India Trade in Goods Agreement was signed, after six years of negotiation, on August 13, 2009, in Bangkok, Thailand and came into effect on January 1, 2010. The ASEAN-India Agreement on Investment and Trade in Services was signed on November 13, 2014, and came into effect on July 1, 2015.

¹⁶Ministry of External Affairs, Government of India

¹⁷Ministry of External Affairs, Government of India

Trade in Goods Agreement

The ASEAN-India Agreement on Trade in Goods came into force on January 1, 2010 in the case of Malaysia, Singapore and Thailand; June 1, 2010 for Vietnam; September 1, 2010 for Myanmar; October 1, 2010 for Indonesia; November 1, 2010 for Brunei; January 24, 2011 for Lao PDR; June 1, 2011 for Philippines; and July 29, 2011 for Cambodia. Elimination or reduction of tariffs under the various tariff categories like normal tracks 1 & 2, sensitive track, special products and highly sensitive track would be by 2019 for ASEAN non- CLMV barring Philippines; 2022 for Philippines; and 2024 for Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). Tariff concessions in the Agreement are offered either through tariff elimination or tariff reduction. **Table 5.1** itemizes the agreed tariff reduction or elimination framework for different categories of tariff lines among the ASEAN member states and India.

Under the Agreement, ASEAN countries and India have agreed to progressively eliminate tariffs on 80 per cent of the tariff lines, accounting for 75 per cent of the trade.¹⁸ India has excluded 489 tariff lines (HS6 Digit level) from the list of tariff concessions and 590 tariff lines from the list of tariff elimination to address sensitivities in agriculture, textiles, auto, chemicals, petrochemicals, crude and refined palm oil, coffee, tea, pepper, etc. ASEAN countries have also maintained country wise exclusion list from the proposed tariff concessions or eliminations.

Table 5.1: ASEAN-India Tariff Reduction/Elimination Framework

Category	Brunei, Indonesia, Malaysia, Singapore, Thailand & India	India and Philippines	Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) & India
Normal Track 1	Most Favoured Nation (MFN) tariff rates to be reduced to 0% by 2013	MFN tariff rates to be reduced to 0% by 2018	MFN tariff rates to be reduced to 0% for India by 2013 and 0% for CLMV by 2018
Normal Track 2	MFN tariff rates to be reduced to 0% by 2016	MFN tariff rates to be reduced to 0% by 2019	MFN tariff rates to be reduced to 0% for India by 2016 and 0% for CLMV by 2021
Sensitive Track	i. MFN tariff rates to be reduced to 5% 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 2016.	i. MFN tariff rates to be reduced to 5% by 2019 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.	i. 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% by 5 years for CLMV. Preferential Tariffs rates to be reduced to 4% by 2021.

¹⁸Ministry of Commerce and Industry, Government of India

Category	Brunei, Indonesia, Malaysia, Singapore, Thailand & India	India and Philippines	Cambodia, Lao PDR, Myanmar, Vietnam (CLMV) & India
	iii. Applied MFN tariff rates on 4 per cent 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 per cent 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 per cent of the tariff lines placed in the Sensitive Track (as will be identified by each Party) will be eliminated by 2024
Special Product* (Applicable for India)	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
Highly Sensitive Track (Not applicable for Brunei, Lao, Myanmar & Singapore)	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
Exclusion List	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 & Investment Agreement

The ASEAN-India Trade in Services Agreement was signed on November 13, 2014 and came into effect from July 1, 2015. Select articles contained in the Services Agreement include transparency, domestic regulations, recognition, market access, and national treatment, increasing participation of developing countries, joint committee on services, review, dispute settlement and denial of benefits. The Investment Agreement primarily focuses on protection of investment to ensure fair and equitable treatment for investors, non-discriminatory treatment in expropriation or nationalisation, and fair compensation.

The ASEAN-India Trade in Services and Investment Agreement covers General Agreement on Trade in Services (GATS) plus commitments for different modes of supply of services. Each of the ASEAN countries have submitted individual schedule commitments which would be equally applicable to all participating countries. Both India and ASEAN Member States have taken GATS plus commitments in various Services and modes of supply.

Regional Comprehensive Economic Partnership (RCEP) Agreement

While the ASEAN-India Free Trade Area is fully functional from July 2015, India is also actively engaged in the Regional Comprehensive Economic Partnership negotiations involving ASEAN and its six FTA partners, which, when completed, is expected to be the largest regional trading arrangement, accounting for nearly 40 percent of the world trade¹⁹. Regional Comprehensive Economic Partnership (RCEP) Agreement is a proposed free trade agreement (FTA) between ASEAN (including Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam) and six FTA Partners (Australia, China, India, Japan, South Korea and New Zealand). RCEP negotiations were formally launched in November 2012, at the ASEAN Summit in Cambodia. There have been several rounds of detailed negotiations to conclude the RCEP. The 19th round of the Regional Comprehensive Economic Partnership (RCEP) Trade Negotiating Committee (TNC) meetings was held during July 17-28, 2017 in Hyderabad, India. During the meeting, all RCEP Participating Countries (RPCs) agreed that a good RCEP agreement has 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.²⁰

Mekong-Ganga Cooperation

The Mekong-Ganga Cooperation (MGC), established on November 10, 2000, is an initiative by six countries – India and five ASEAN countries namely, Thailand, Cambodia, Lao PDR, Myanmar and Vietnam – for cooperation in the fields of tourism, education, culture, transport and communication, and was launched at Vientiane, Lao PDR. Both the Ganga and the Mekong are civilizational rivers, and the MGC initiative aims to facilitate closer contacts among the people inhabiting these two major river basins. The MGC is also indicative of the cultural and commercial linkages among the member countries of the MGC down the centuries. The Eighth Mekong Ganga Cooperation Ministerial Meeting was held on August 7, 2017 in Manila, Philippines. The Ministers emphasized the need to expedite the collaboration under MGC while seeking continuously to identify newer areas of cooperation, in order to strengthen economic linkages and to tap trade and investment potential of the cooperation between India and Mekong countries²¹.

India's Act East Policy

India's search for economic space resulted in the 'Look East Policy'. The Look East Policy has today matured into an action-oriented 'Act East Policy'. An important element for enhancing economic relations between the two regions is to make Indian companies a part of regional value chains and production networks. Towards this end, at the ASEAN-India Summit in 2015, a Project Development Fund with a corpus of INR 500 crore for catalysing Indian projects in Cambodia, Lao PDR, Myanmar and Vietnam, was announced by the Indian Prime Minister, in line with India's 'Act East Policy'. Additionally, the Ministry of Commerce and Industries, under its Market Access Initiative, has financed over 14 trade promotional events in ASEAN Member States at a cost of ₹767 crore during the year 2016-17.

¹⁹Ministry of External Affairs (MEA), Government of India

²⁰Press Information Bureau, Ministry of Commerce & Industry, Government of India

²¹Ministry of External Affairs (MEA), Government of India

Some of the other major agreements between ASEAN and India include;

- Plan of Action to Implement the ASEAN-INDIA Partnership for Peace, Progress and Shared Prosperity (2016-2020);
- Instrument of Accession to the Treaty of Amity and Cooperation in Southeast Asia by India
- ASEAN - India Joint Declaration for Cooperation to Combat International Terrorism, Bali, Indonesia, October 2003

Plan of Action to Implement the ASEAN-INDIA Partnership for Peace, Progress and Shared Prosperity (2016-2020)

As a reflection of the interest of ASEAN and India to intensify their engagement, the ASEAN-India Partnership for Peace, Progress and Shared Prosperity, set out the roadmap for long-term ASEAN-India engagement, and was originally signed during the 3rd ASEAN-India Summit on November 30, 2004 in Vientiane, Lao PDR. The Plan of Action (POA) to Implement the ASEAN-India Partnership for Peace, Progress and Shared Prosperity (2016-2020) was adopted by the Leaders of ASEAN and India at the ASEAN Post Ministerial Conference Plus One Session with India on August 5, 2015 in Kuala Lumpur, Malaysia to succeed the POA developed to implement the Partnership for the period from 2010 to 2015. The POA 2016-2020 spells out and sets the course of joint actions, practical cooperation and concrete projects and activities. The POA 2016-2020 comprises three broad areas, namely political and security cooperation; economic cooperation; and socio-cultural cooperation. This POA lays out priorities and measures to be undertaken by both sides to further deepen and enhance their political-security, economic and socio-cultural ties as well as to realise the full potential of the ASEAN-India strategic partnership in all areas of common interests²².

²²Source: www.asean.org

6. INDIA-CLMV INITIATIVE AND POTENTIAL AREAS FOR ENHANCING COOPERATION

India and the CLMV region comprising Cambodia, Lao PDR, Myanmar and Vietnam, have historically had civilizational, cultural and economic relations since the ancient times. People, goods, capital and ideas have travelled between India and the CLMV countries over a long period. However, these linkages are characterised by untapped potential in the present scenario. In order to further strengthen ASEAN-India relations and as an attempt to provide an impetus to the regional integration that India has with its eastern neighbours, India's 'Look East' Policy was transformed to the 'Act East' Policy in 2014. The objective of 'Act East Policy' is to promote economic cooperation, cultural ties and develop strategic relationship with countries in the Asia-Pacific region through continuous engagement at bilateral, regional and multilateral levels thereby providing enhanced connectivity to the states of India's North-eastern Region.

CLMV collectively, ranks the third largest in ASEAN, in terms of size of economy, after Indonesia and Thailand. CLMV is an integral part of ASEAN region, covering 31.8 per cent of its geographical area²³, and collectively accounting for 11.8 per cent of ASEAN's GDP in 2016²⁴ (**Table 6.1**). Responding positively to economic reforms, the economies of CLMV have shown tremendous potential for growth in the region.

Table 6.1: CLMV- Select Basic Indicators

Country	Total Land Area (Km ²)	Total Population (mn) 2016	Real GDP Growth (%) 2016	GDP at Current Prices (US\$ bn) 2016
Cambodia	1,81,035	15.8	7.0	19.4
Lao PDR	2,36,800	7.2	6.9	13.8
Myanmar	6,76,577	52.3	6.3	66.3
Vietnam	3,30,951	92.6	6.2	201.3
CLMV Region	14,25,363	167.8	6.6	300.8
ASEAN Region	44,88,839	637.4	4.5	2,549
Share of CLMV region in ASEAN	31.8%	26.3%	-	11.8%

Source: ASEAN Secretariat, IMF WEO April 2017

CLMV countries are primarily agrarian, and have enjoyed a certain degree of macroeconomic stability in recent years, with immense prospects for further advancement in future. Within South East Asian region, the CLMV countries have begun attracting greater attention of the global economic community, given their huge potential for future development. These economies are endowed with abundant natural resources and low-wage labour force, while facing challenges in developments of infrastructure and logistics. This provides an immense prospective for development and thus, growth.

²³Based on ASEAN Secretariat Statistics, as of August 2016

²⁴Based on IMF World Economic Outlook database, April 2017

The CLMV countries are presently at different levels of economic development. One of the top priorities of ASEAN Community is the integration of Cambodia, Lao PDR, Myanmar and Vietnam with ASEAN by bridging the development gaps. To improve the situation and effectively assist the CLMV countries in catching up with the six more developed ones, there is a need for using variety of approaches to promote wider economic development in the region.

Government of India's CLMV Initiative

Due to its close proximity, India is looking to boost trade and investment with the CLMV region as part of the 'Act East' policy of the Government of India. Government of India endeavours to cultivate extensive economic and strategic relations in South-East Asia by way of stimulating investments from the Indian private sector into the CLMV region. Although, the Indian companies are expected to take commercial decisions while investing in this region, there is a need for Government-driven initiative to create adequate support infrastructure in this region to make these investment decisions operationally viable. In order to step up India's commercial engagements with CLMV countries, the Government of India envisages establishment of an institutional mechanism for encouraging investments by Indian manufacturing and infrastructure development companies in CLMV countries through a Project Development and Facilitation Framework (PDFF). A privately held Project Development Company (PDC) has been thought through as forming the anchor of the PDFF, helping catalyse India's commercial and strategic interests in the CLMV region.

In view of the above, a Project Development Fund (PDF) with a corpus of INR 500 crores to develop manufacturing hubs in CLMV countries was announced by Honourable Prime Minister of India at the 13th ASEAN-India Summit held in Malaysia in November 2015. The PDF, housed in Department of Commerce, Ministry of Commerce and Industry, Government of India, will be operated through the Exim Bank, which will act as the 'Empowered Institution' under the initiative. The PDF shall be governed by an Inter-Ministerial Committee under the chairpersonship of the Commerce Secretary. The primary objective of the PDF is to facilitate Indian investments and broaden the manufacturing base of Indian companies in CLMV countries. The PDF will be used to identify projects, which support Regional Value Chain (RVC) and help integrate Indian companies into the RVC. The projects identified under the initiative, if found feasible/ viable, will be incorporated/ implemented through Special Purpose Vehicles (SPVs) in CLMV countries. The PDF shall benefit India's industrial community for business expansion, and to maintain cost competitive supply chains, besides integrating with global production networks.

The Project Development Fund will be used for the following functions;

- Setting up of country level Special Purpose Vehicles in the CLMV region for developing the identified industrial zone projects. The proposed SPVs would acquire already planned SEZs or identify new areas to set up Industrial Parks / Industrial Zones where Indian companies can set up manufacturing facilities.
- Detailed Profiling of regions in CLMV countries, identification of investment centres and suitable projects for investments.
- Pre-feasibility and preparation of Detailed Project Reports for select projects.
- Conducting road-shows for investors in the identified projects and providing advisory services to Indian companies willing to invest in CLMV region

Exim Bank's Role in CLMV Initiative

Export-Import Bank of India (Exim Bank) has been working closely with Department of Commerce, Ministry of Commerce and Industry, Government of India under India's 'Act East Policy' for conducting a study for developing a framework to identify opportunities for India in trade and investments in CLMV countries. For this Study, Exim Bank mounted a Mission to CLMV countries to gather inputs from all stakeholders in those countries and submitted the final report to MOCI. Exim Bank, as the Empowered Institution under the Project Development Fund initiative, has identified potential sectors in the CLMV region for undertaking preparation of Detailed Project Reports, based on which Special Purpose Vehicles (SPV's) will be set up in the region for implementing the identified projects.

Additionally, to promote regional commercial relations between India and CLMV, Exim Bank has extended concessional Lines of Credit to governments, parastatal organizations, financial institutions, commercial banks and regional development banks in the region, to support export of eligible goods on deferred payment terms. As on August 31, 2017, the current operative LOCs covering the CLMV region extended by Exim Bank India, at the behest of Government of India amounted to US\$ 914.18 million, for financing projects in areas such as electricity transmission, railway, irrigation, hydropower projects, export of machinery and equipment, among others.

Further, with a view to support Indian companies in their endeavour to globalise their operations, Exim Bank operates a programme to support overseas investments by Indian companies through Joint Ventures/ Wholly Owned Subsidiaries. As on March 31, 2017, Exim Bank has sanctioned ₹137.72 crore to six Indian companies for setting up ventures in Vietnam and Myanmar.

Potential Areas for Enhancing India-CLMV Economic Cooperation

1. Agriculture and allied Sector

The CLMV countries are primarily agrarian based with agriculture and allied activities forming the backbone as majority of population in the CLMV countries depend on it for their livelihood. The CLMV countries have demonstrated their comparative advantage through expanded trade, gaining a sizable share of global markets for key food and agricultural products, such as rice, cassava, prawns, processed fish, poultry products, and rubber, and have the advantage of natural resources, fertile agro-ecosystems, and rich biodiversity. However, agro-industries in this sub-region of the ASEAN region are mostly underdeveloped, leaving significant opportunity for development of agro-based industries. Potential investments from India in this sector, based on India's Outward FDI Capacity and CLMV's investment requirements, could be directed towards farm mechanisation, through agricultural machineries such as paddy drum seeder, tractors, paddy transplanter, power tiller, zero till drill, and rubber technology such as rubber roller ginning machine etc²⁵.

2. Software, ICT and Telecommunication

According to the World Trade Organization, the ASEAN region is a net importer of telecommunications, computer and information services. Further, the CLMV region is still on the path of modernization and computerization.

²⁵India's Strategy for Economic Integration with CLMV, 2015

India is a global leader in software development and other IT services, which defines how greater cooperation between the two regions can be exploited. Further, India's IT-BPO industry has developed a large client base in OECD countries, including the United States, and thus, there is a need to diversify these markets for India. Based on India's services' exports capacity and CLMV's requirements, India and CLMV countries can combine together and expand and deepen the services in areas such as computer software, data processing, database services, voice telephone, packet-switched & circuit-switched data transmission, private leased circuit, electronic mail, voice mail, on-line information and data base retrieval, electronic data interchange (EDI) etc. Additionally, India can share its expertise with the CLMV countries and even introduce necessary vocational course to support the initiative.

3. Connectivity

Infrastructure and connectivity between India and CLMV countries remains a major area of concern. Although the status of infrastructure in CLMV countries is improving, still connectivity with India is less. According to World Bank database, in terms of the three dimensions of connectivity digital, soft and physical, CLMV countries lag behind India on several counts, with some exceptions in the case of Vietnam. Improved connectivity is, therefore, required to reduce trade costs, increase trade flows and facilitate cross-border transport of goods, services and movement of persons between the two regions. An integrated connectivity would also provide substantial benefits to countries of the region by giving them low-cost access to world market. Development of connectivity would open significant opportunities for industrial development in India, particularly in the North-eastern region and its trade potential with South and East Asian countries. These highlight the imperatives of India's greater OFDI in some of the areas of connectivity in which India has capacity to do business, such as in the areas of digital connectivity and soft connectivity, which are essential for smooth operation of physical connectivity. Mobilising financial resources to support connectivity projects for both cross-border and back-end linkages is a major challenge. Setting-up of Project Development Fund (PDF) has been an important beginning to build border connectivity, SEZs, attract investment and support SMEs. The PDF would support, among others, design, finance and implement connectivity projects in the region²⁶.

4. Banking and Financial Services

While India's financial services sector has developed significantly over the years, India is yet to fully realize its potential in this sector. India has initiated several programmes in order to assume leadership role in financial services. India's investment and services agreement with ASEAN will allow India to access the CLMV markets in the area of financial services, among others. While opportunities in the region are aplenty, there is still a thin representation of Indian Banks in CLMV. Information regarding opportunities in the region is inadequate as is the infrastructure framework in these countries. This is also the case for the Indian financial services sector, which has a very limited footprint in the region. Indian Banks may increase their presence, especially by opening more branches/representative offices, in the region. India can also offer knowledge and its experience with respect to deepening of rural financial systems. Another area where Indian Banks can explore possibilities of cooperation is the financing of SMEs. Indian Banks could also develop corresponding relations with select banks in the region to facilitate and promote commercial relations.

²⁶Exim Bank of India, "India's Engagements with CLMV: Gateway to ASEAN Markets", February 2017

5. Building Regional Value Chains

ASEAN as a region has one of the highest global value chain (GVC) participation indices in the world, the regional value chain (RVC) in the CLMV is yet to be developed. India's participation in RVCs has been relatively low, while RVCs in CLMV, are also not well developed as compared to rest of ASEAN. This creates opportunities for India's economic integration with CLMV region through RVCs. Regional value chains entail relocation of production bases at different stages of production and manufacturing in different countries that are linked with services. The net outcome of such relocation is in terms of efficiency-seeking industrial restructuring. For this to be achieved there is a need to align India's commercial interest with CLMV Policy Focus, along with an integrated approach towards policy strategy.

A Study by Ministry of Commerce and Industry, Government of India²⁷, stressed the importance of integrating employment-intensive SMEs in RVCs through India-CLMV economic integration, which could be achieved with a three-pronged strategy: viz. by linking SMEs with large companies; linking SMEs with MNCs in CLMV; and linking SMEs on a stand-alone basis with their counterparts in CLMV. Presently, India is not directly engaged with ASEAN (including CLMV) through a RVC. However, RCEP is likely to generate a stronger value chain between ASEAN and India. Simplification of trade rules and regulations through RCEP would eventually generate higher trade in the region, leading to an increase in higher economic welfare for the region. The Study by Ministry of Commerce and Industry, Government of India, through a rigorous empirical exercise based on various techniques identified various potential sectors for bilateral trade in goods between India and CLMV, based on detailed examination of HS 6-digit level data of trade. Some of the areas where the value chain between CLMV and India may be developed are highlighted in **Table 6.2**.

Table 6.2: Potential Sectors for Regional Value Chain in CLMV for Trade in Goods

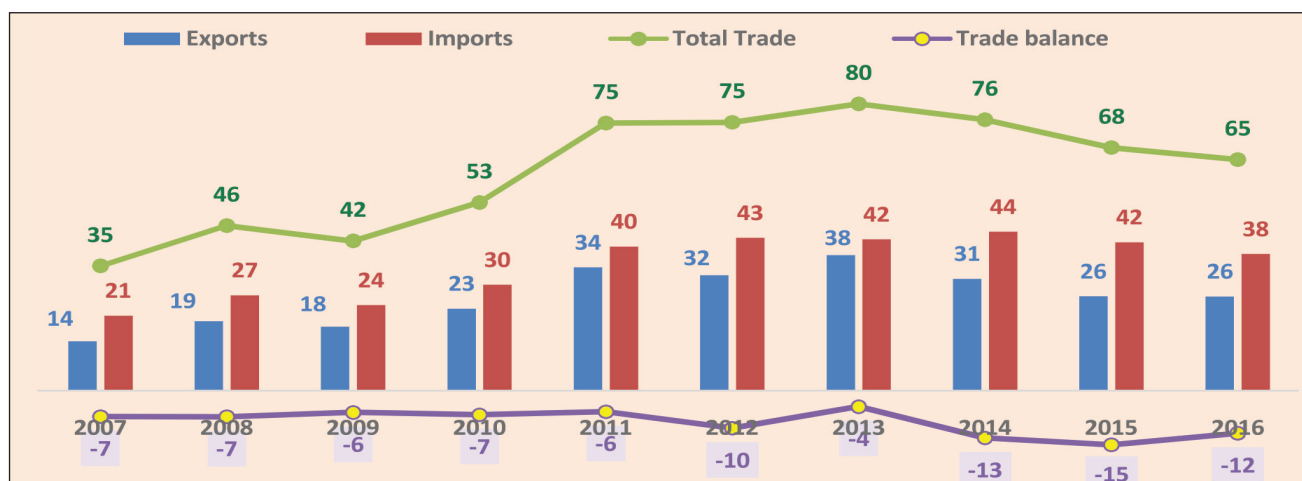
Country	Potential Sectors for RVC
Cambodia	Textiles and Garments; Processed Food; Electrical and Electronic Equipment; Gems and Jewellery; Automobile parts; Iron and Steel; Articles of Iron and Steel; Leather; Rubber and Rubber articles
Lao PDR	Electrical and Electronic Equipment; Oil and Natural Gas; Iron and Steel; Articles of Iron and Steel; Rubber and Rubber articles
Myanmar	Pharmaceuticals; Processed Food; Textiles and Garments; Electrical and Electronic Equipment; Gems and Jewellery; Marine and Seafood; Oil and Natural Gas; Automobile parts; Iron and Steel; Articles of Iron and Steel
Vietnam	Leather; Automobile parts; Iron and Steel; Articles of Iron and Steel; Pharmaceuticals; Processed Food; Textiles and Garments; Electrical and Electronic Equipment; Gems and Jewellery; Marine and Seafood; Oil and Natural Gas; Rubber and Rubber articles

Source: Department of Commerce, Ministry of Commerce and Industry, Government of India

²⁷India's Strategy for Economic Integration with CLMV, 2015

7. INDIA'S TRADE RELATIONS WITH ASEAN COUNTRIES: RECENT TRENDS AND PROSPECTS

Figure 7.1: India's Recent Bilateral Trade with ASEAN (US\$ bn)

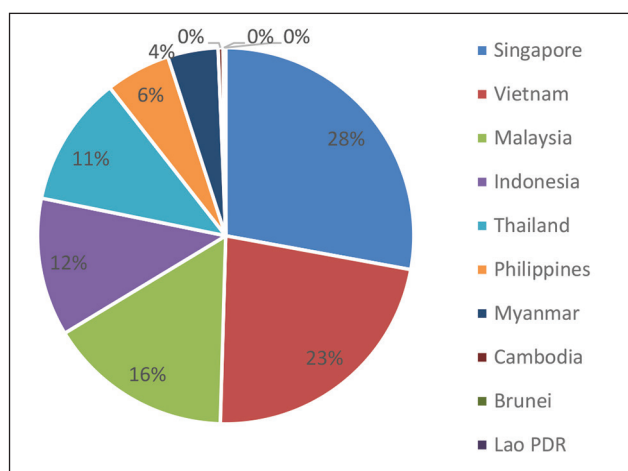


Source: ITC, Geneva and Exim Bank Analysis

India's Trade with ASEAN

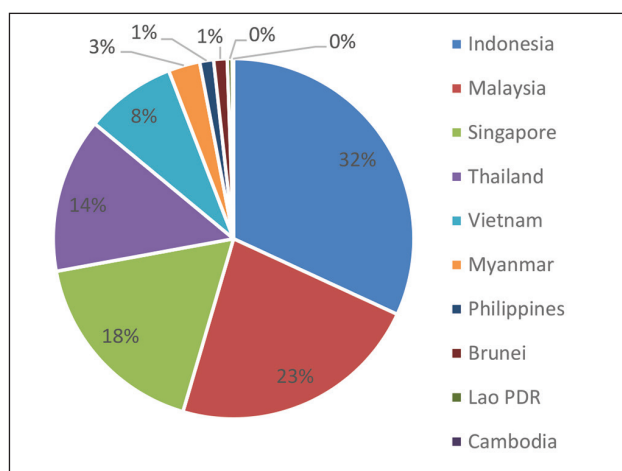
- Over the past ten years, India's trade with ASEAN has almost doubled from US\$ 35 bn in 2007 to US\$ 65 bn in 2016.
- Both exports and imports too almost doubled over the period, from US\$ 14 bn and US\$ 21 bn respectively in 2007, to US\$ 26 bn and US\$ 38 bn respectively in 2016.
- India stands as ASEAN's 11th largest trading partner in the year 2016.

Figure 7.2: India's Major Export Destinations in ASEAN (2016)



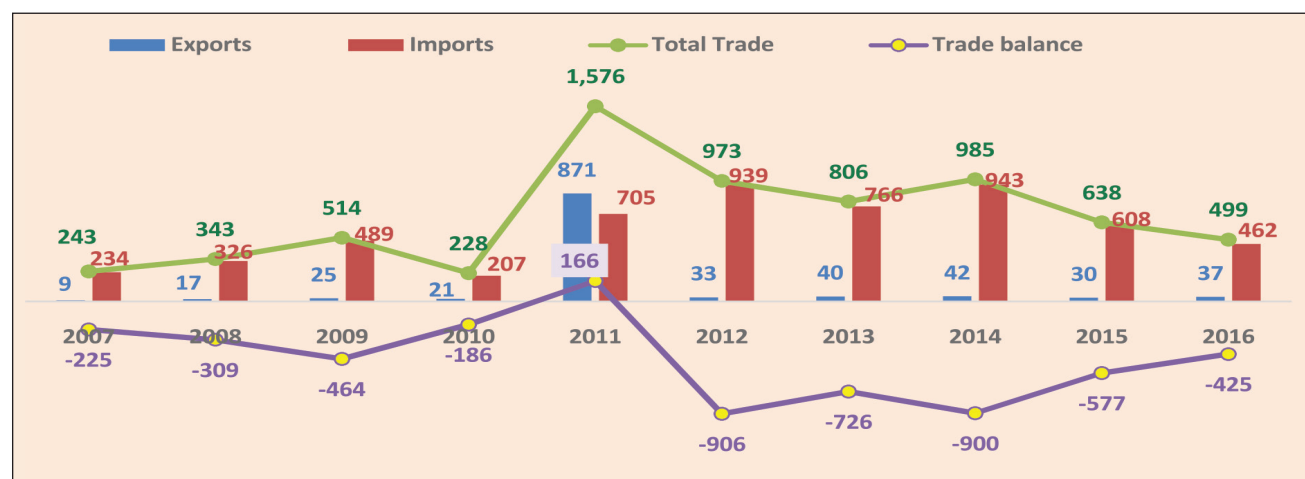
Source: ITC, Geneva and Exim Bank Analysis

Figure 7.3: India's Major Import Sources in ASEAN (2016)



India's Trade with Brunei Darussalam

Figure 7.4: India's Bilateral Trade with Brunei (US\$ mn)

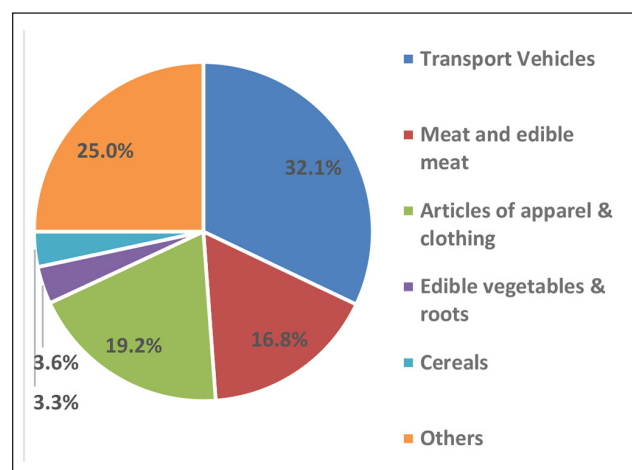


Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Brunei

- Over the decade, India's trade with Brunei more than doubled from US\$ 243 mn in 2007 to US\$ 500 mn in 2016, driven by India's imports from Brunei.
- While, exports grew at a CAGR of 17.4% from US\$ 9 mn in 2007 to US\$ 37 mn in 2016, imports grew to US\$ 462 mn from US\$ 234 mn during the same period.
- India is Brunei's 7th largest trading partner and a net importer from Brunei, with a share of 6.7% in Brunei's total international trade in the year 2016.

Figure 7.5: India's Major Exports to Brunei (2016)



Source: ITC, Geneva and Exim Bank Analysis

Figure 7.6: India's Major Imports from Brunei (2016)

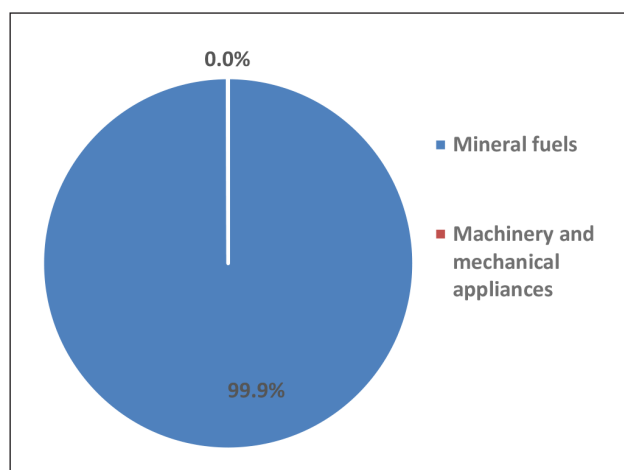


Table 7.1 attempts to identify potential items of exports from India to Brunei based on analysis of Brunei's top imported products, as per 2-digit HS code, and India's share in Brunei's global import under each product, and India's global export capability. India's share in Brunei's major imports is marginal, highlighting the potential to enhance these exports to Brunei, in light of the demand in the country, as also India's global export capability.

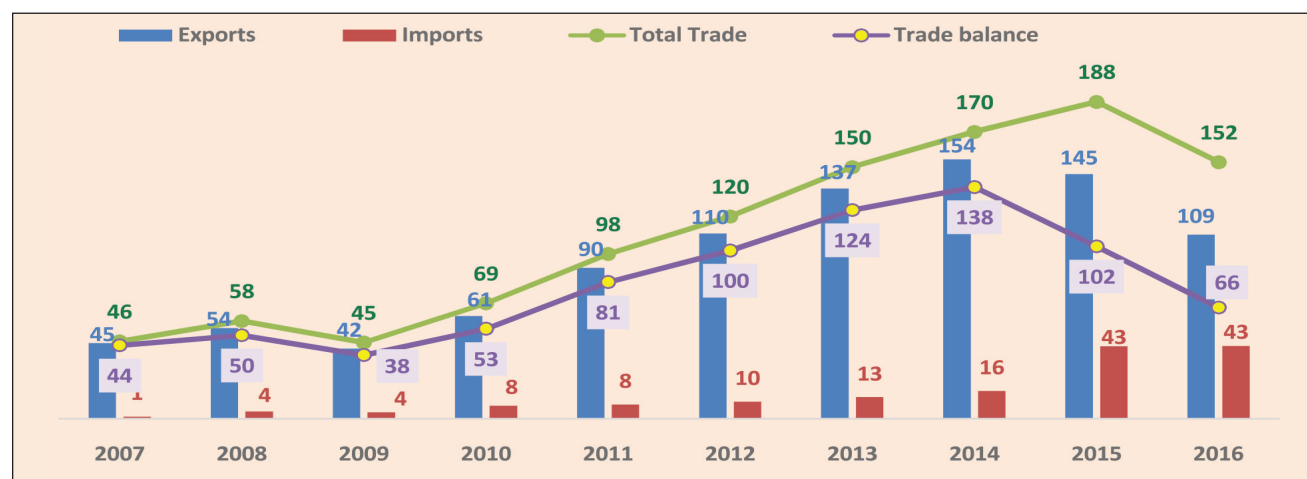
Table 7.1: Brunei's Top Imported Products and India's Share, 2016

HS code	Product label	Brunei Darussalam's imports from world	Brunei Darussalam's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
84	Machinery and mechanical appliances	386.4	0.8	0.2%	13557.5
27	Mineral fuels, mineral oils and products of their distillation	230.5	-	-	27715.4
87	Transport vehicles other than railway or tramway	224.5	13.3	5.9%	14988.3
73	Articles of iron or steel	213.1	0.4	0.2%	5820.7
85	Electrical machinery and equipment	184.9	0.6	0.3%	8217.9
88	Aircraft, spacecraft, and parts	76.7	-	-	3025.8
90	Optical, photographic and cinematographic apparatus	68.5	0.3	0.4%	2649.6
30	Pharmaceutical products	66.6	0.3	0.4%	13042.7
38	Miscellaneous chemical products	57.5	0.6	1.0%	3150.4
39	Plastics and its articles	55.4	0.6	1.0%	5213.2
72	Iron and steel	55.0	-	-	6436.7
25	Salt, sulphur, earths and stone	53.2	0.1	0.2%	1815.6
23	Residues and waste from the food industries	50.5	0.3	0.5%	774.7
22	Beverages, spirits and vinegar	50.2	0.0	0.1%	308.1
19	Preparations of cereals, flour, starch or milk	47.9	0.1	0.2%	515.8
40	Rubber and its articles	45.6	0.1	0.1%	2407.9
04	Dairy produce, eggs, honey	44.0	0.1	0.2%	279.7
21	Miscellaneous edible preparations	39.6	0.1	0.2%	614.1
94	Furniture, beddings, mattresses and similar stuffed furnishings	36.9	0.03	0.1%	1354.0
08	Edible fruit and nuts	34.7	0.6	1.6%	1596.3

Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

Based on the table above and India's export capability, potential items of India's exports to Brunei would include, among others:

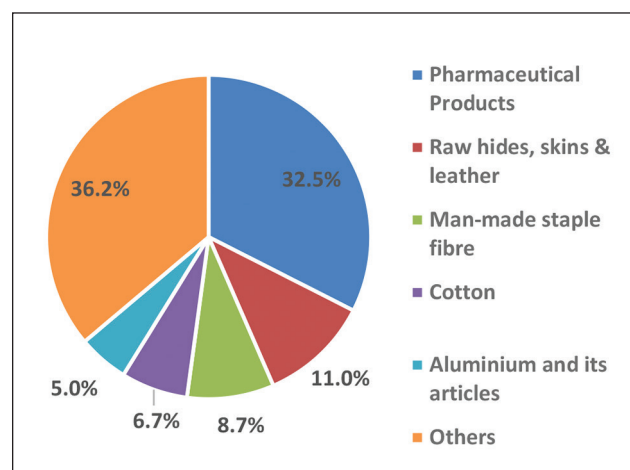
- Machinery and equipment (HS-84)
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Articles of iron or steel (HS-73)
- Electrical machinery and equipment (HS-85)
- Aircraft, spacecraft, and parts (HS-88)
- Optical, photographic and cinematographic apparatus (HS-90)
- Pharmaceutical products (HS-30)

India's Trade with Cambodia**Figure 7.7: India's Bilateral Trade with Cambodia (US\$ mn)**

Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Cambodia

- India's trade with Cambodia increased at a CAGR of 14% over the past ten years, from US\$ 46 mn in 2007 to US\$ 153 mn in 2016.
- While, exports witnessed a sharp increase from US\$ 45 mn in 2007 to US\$ 109 mn in 2016, imports picked up from a negligible US\$ 1 mn in 2007 to US\$ 43 mn in 2016.
- Although a net exporter to Cambodia, India's share in Cambodia's total international trade accounted only for a meagre 0.7% in 2016.

Figure 7.8: India's Major Exports to Cambodia (2016)

Source: ITC, Geneva and Exim Bank Analysis

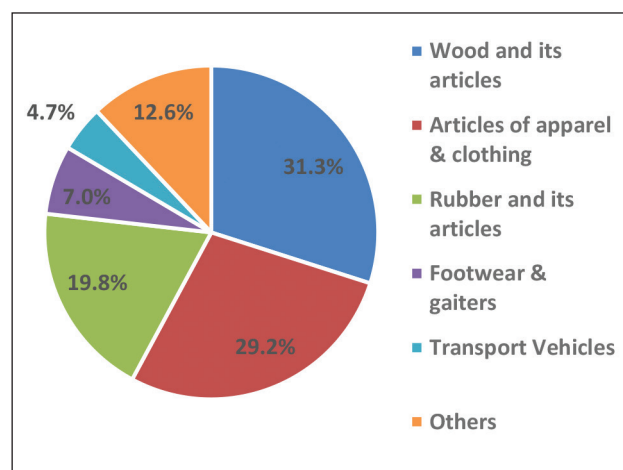
Figure 7.9: India's Major Imports from Cambodia (2016)

Table 7.2: Cambodia's Top Imported Products and India's Share, 2016

HS code	Product label	Cambodia's imports from world	Cambodia's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
60	Knitted or crocheted fabrics	2202.7	2.0	0.1%	265.9
87	Transport vehicles other than railway or tramway	1140.8	5.7	0.5%	14988.3
27	Mineral fuels, mineral oils and products of their distillation	1101.5	-	-	27715.4
55	Man-made staple fibres	972.4	12.1	1.2%	2047.1
84	Machinery and mechanical appliances	882.2	5.0	0.6%	13557.5
85	Electrical machinery and equipment	610.3	6.9	1.1%	8217.9
52	Cotton	445.5	3.8	0.9%	6262.5
39	Plastics and its articles	428.9	1.5	0.4%	5213.2
48	Paper, paperboard and articles of paper pulp	299.2	0.7	0.2%	1184.1
71	Pearls, precious or semi-precious stones and metals	261.6	-	-	42290.7
24	Tobacco and manufactured tobacco substitutes	231.4	0.4	0.2%	1012.2
73	Articles of iron or steel	196.7	1.2	0.6%	5820.7
72	Iron and steel	185.8	0.1	0.1%	6436.7
22	Beverages, spirits and vinegar	168.4	0.1	0.0%	308.1
43	Furskins and artificial fur	167.1	-	-	11.9
58	Special woven fabrics	167.1	0.4	0.3%	361.2
30	Pharmaceutical products	167.0	28.4	17.0%	13042.7
76	Aluminium and its articles	159.5	-	-	2732.7
40	Rubber and its articles	144.0	0.4	0.2%	2407.9
23	Residues and waste from the food industries	139.3	3.0	2.1%	774.7

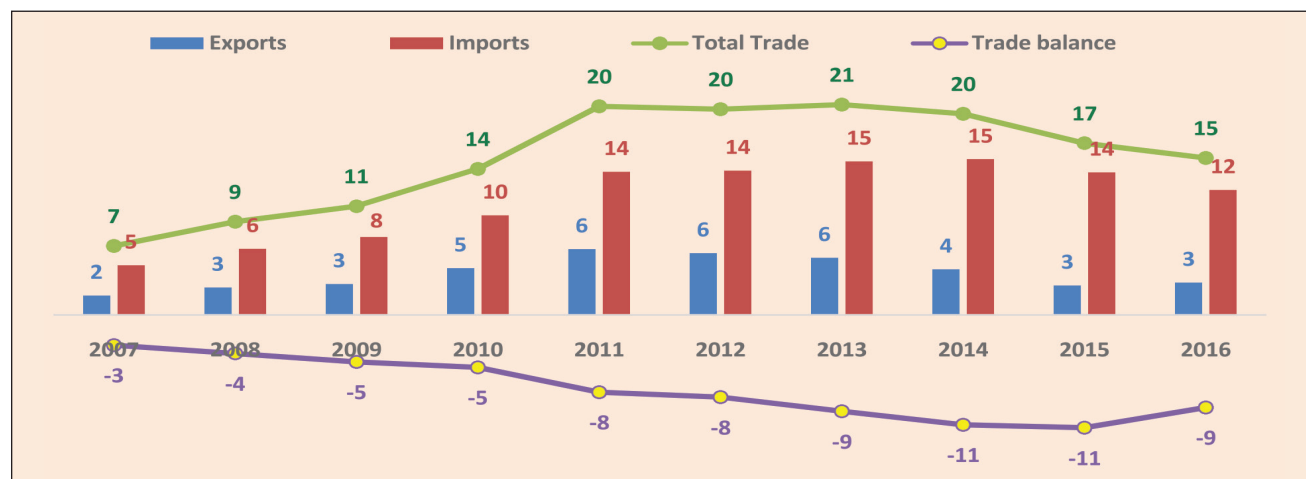
Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

Based on the table above and India's export capability, potential items of India's exports to Cambodia would include, among others:

- Knitted or crocheted fabrics (HS-60)
- Transport vehicles other than railway or tramway (HS-87)
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Man-made staple fibres (HS-55)
- Machinery and mechanical appliances (HS-84)
- Electrical machinery and equipment (HS-85)
- Cotton (HS-52)

India's Trade with Indonesia

Figure 7.10: India's Bilateral Trade with Indonesia (US\$ bn)

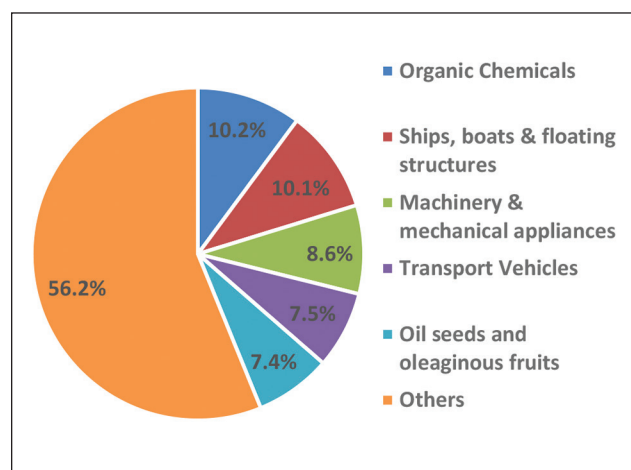


Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Indonesia

- India's total trade with Indonesia more than doubled from US\$ 7 bn in 2007 to US\$ 21 bn in 2013, driven by India's imports from Indonesia, thereafter witnessing a moderation to amount to US\$ 15 bn in 2016.
- Exports and imports amounted to US\$ 3 bn and 12 bn, respectively in 2016 up from US\$ 2 bn and US\$ 5 bn, respectively in 2007.
- India stands as Indonesia's 8th largest trading partner and a net importer from Indonesia. India's share in Indonesia's total international trade accounted for 5.5% in 2016.

Figure 7.11: India's Major Exports to Indonesia (2016)



Source: ITC, Geneva and Exim Bank Analysis

Figure 7.12: India's Major Imports from Indonesia (2016)

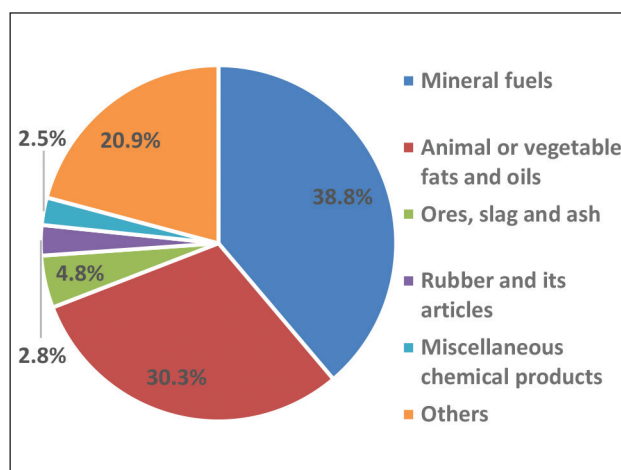


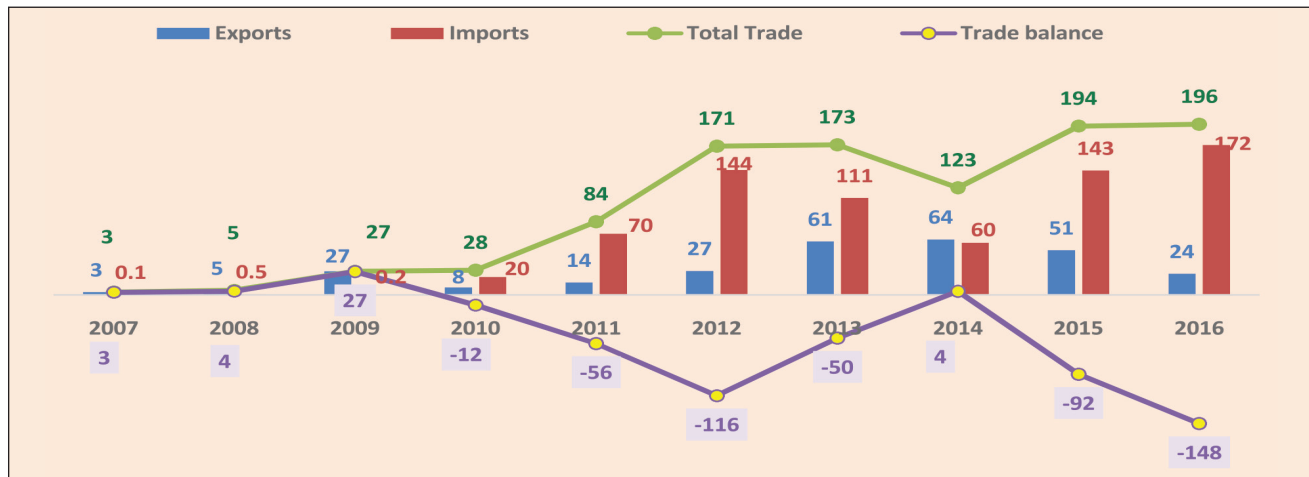
Table 7.3: Indonesia's Top Imported Products and India's Share, 2016

HS code	Product label	Indonesia's imports from world	Indonesia's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
84	Machinery and mechanical appliances	21070.9	337.8	1.6%	13557.5
27	Mineral fuels, mineral oils and products of their distillation	19250.4	43.1	0.2%	27715.4
85	Electrical machinery and equipment	15430.9	128.1	0.8%	8217.9
39	Plastics and its articles	6999.8	96.8	1.4%	5213.2
72	Iron and steel	6180.1	203.8	3.3%	6436.7
87	Transport vehicles other than railway or tramway	5298.4	233.7	4.4%	14988.3
29	Organic chemicals	4790.6	401.1	8.4%	11252.9
10	Cereals	3191.8	16.7	0.5%	5554.8
73	Articles of iron or steel	2931.6	27.7	0.9%	5820.7
23	Residues and waste from the food industries	2479.9	8.0	0.3%	774.7
17	Sugars and sugar confectionery	2367.5	4.8	0.2%	1695.9
90	Optical, photographic, and cinematographic apparatus	2353.5	48.3	2.1%	2649.6
52	Cotton	2096.2	120.4	5.7%	6262.5
38	Miscellaneous chemical products	1911.2	65.4	3.4%	3150.4
40	Rubber and its articles	1703.6	52.5	3.1%	2407.9
31	Fertilisers	1555.6	0.2	0.0%	87.1
28	Inorganic chemicals and compounds of precious metals	1500.5	40.8	2.7%	1243.9
76	Aluminium and its articles	1420.2	40.7	2.9%	2732.7
54	Man-made filaments and textile materials	1412.4	20.2	1.4%	1925.4
47	Pulp of wood or of other fibrous material	1346.8	-	-	9.4

Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

In line with Indonesia's import demand and India's export capability, potential exists to enhance India's exports of certain major items imported by Indonesia, including:

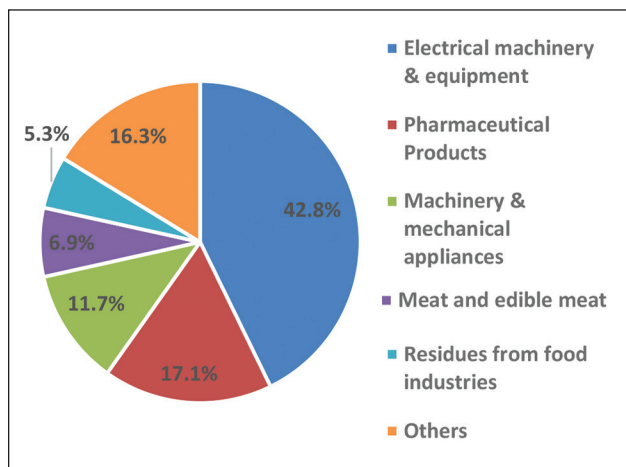
- Machinery and mechanical appliances (HS-84)
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Electrical machinery and equipment (HS-85)
- Plastics and its articles (HS-39)
- Cereals (HS-10)

India's Trade with Lao PDR**Figure 7.13: India's Bilateral Trade with Lao PDR (US\$ mn)**

Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Lao PDR

- India's total trade with Laos picked up from a negligible US\$ 3 mn in 2007 to touch US\$ 196 mn in 2016, after witnessing a fall in 2014.
- Exports amounted to US\$ 24 mn in 2016 down from US\$ 27 mn in 2012, despite recording an increase for two consecutive years during 2013 and 2014. Imports, however, have increased from US\$ 144 mn to US\$ 172 mn during the period 2012 to 2016, registering a CAGR of 4.5%.
- India is Laos' 5th largest trading partner and a net importer from Laos, accounting for a share of 2.7% of Laos' total international trade in the year 2016.

Figure 7.14: India's Major Exports to Lao PDR (2016)

Source: ITC, Geneva and Exim Bank Analysis

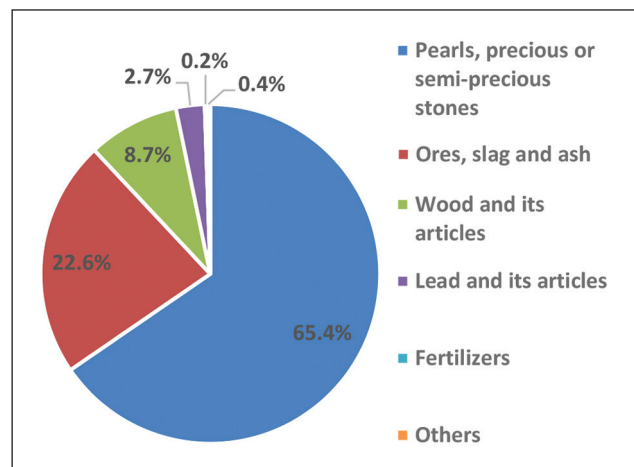
Figure 7.15: India's Major Imports from Lao PDR (2016)

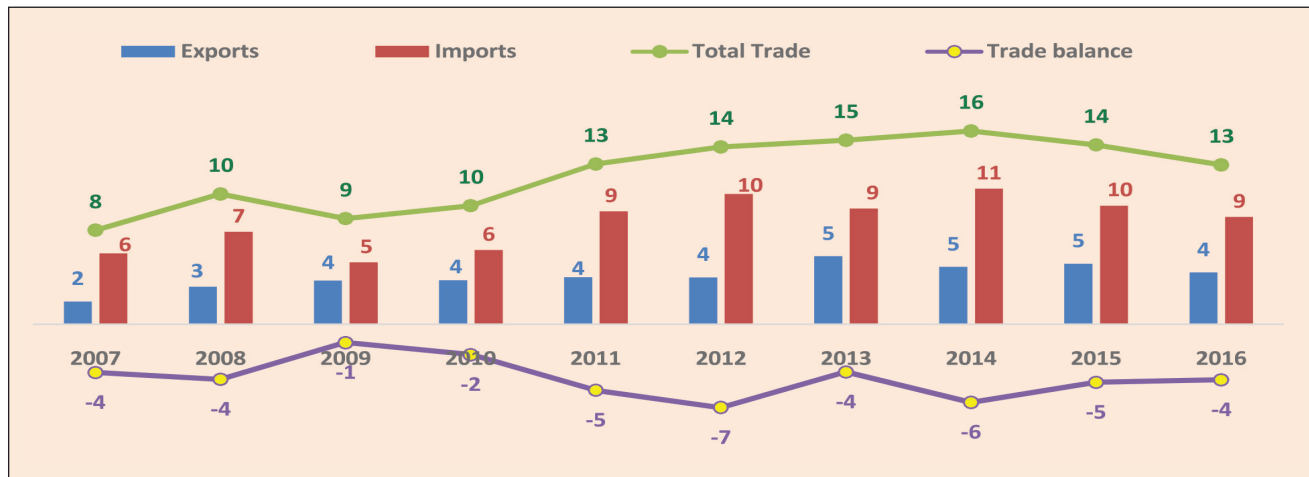
Table 7.4: Lao PDR's Top Imported Products and India's Share, 2016

HS code	Product label	Lao PDR's imports from world	Lao PDR's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
85	Electrical machinery and equipment	649.7	2.4	0.4%	8217.9
27	Mineral fuels, mineral oils and products of their distillation	599.2	0.0	-	27715.4
87	Transport vehicles other than railway or tramway	586.9	7.3	1.2%	14988.3
84	Machinery and mechanical appliances	358.0	0.4	0.1%	13557.5
72	Iron and steel	173.1	0.1	0.1%	6436.7
73	Articles of iron or steel	154.2	0.3	0.2%	5820.7
22	Beverages, spirits and vinegar	153.6	-	-	308.1
25	Salt, sulphur, earths and stone	103.3	0.1	0.1%	1815.6
71	Pearls, precious or semi-precious stones and metals	75.8	-	-	42290.7
39	Plastics and its articles	67.1	-	-	5213.2
48	Paper, paperboard, and articles of paper pulp	63.0	-	-	1184.1
10	Cereals	60.5	-	-	5554.8
55	Man-made staple fibres	44.6	0.4	0.8%	2047.1
23	Residues and waste from the food industries	43.8	-	-	774.7
01	Live animals	42.8	-	-	37.1
28	Inorganic chemicals and compounds of precious metals	42.4	-	-	1243.9
31	Fertilisers	40.4	-	-	87.1
69	Ceramic products	38.2	-	-	1047.9
40	Rubber and its articles	37.5	-	-	2407.9
17	Sugars and sugar confectionery	36.3	-	-	1695.9

Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

Based on the table above and India's export capability, potential items of India's exports to Laos would include:

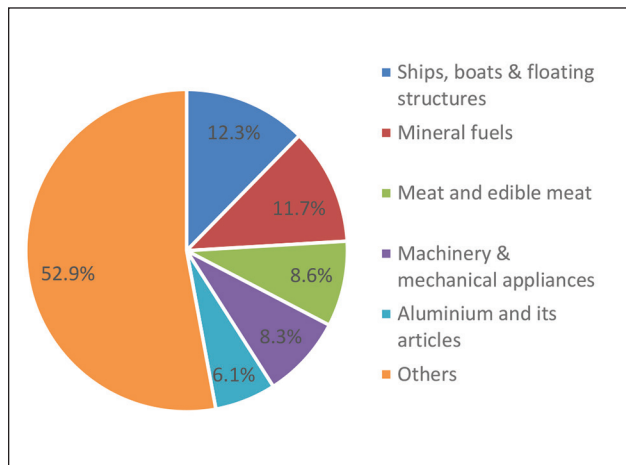
- Electrical machinery and equipment (HS-85)
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Transport vehicles other than railway or tramway (HS-87)
- Machinery and mechanical appliances (HS-84)
- Iron and steel (HS-72)
- Articles of iron or steel (HS-73)
- Salt, sulphur, earths and stone (HS-25)

India's Trade with Malaysia**Figure 7.16: India's Bilateral Trade with Malaysia (US\$ bn)**

Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Malaysia

- India's total trade with Malaysia has shown a consistent pickup during the period 2009 to 2014, increasing from US\$ 9 bn to US\$ 16 bn, followed by a slight moderation in 2015 and 2016, amounting to US\$ 13 bn in 2016.
- While exports have increased from US\$ 2 bn in 2007 to US\$ 4.2 bn in 2016, imports have witnessed an increase from US\$ 5.7 bn in 2007 to US\$ 8.7 bn in 2016.
- India ranks as Malaysia's 10th largest trading partner and a net importer from Malaysia, with a share of 3.6% in Malaysia's total international trade in the year 2016.

Figure 7.17: India's Major Exports to Malaysia (2016)

Source: ITC, Geneva and Exim Bank Analysis

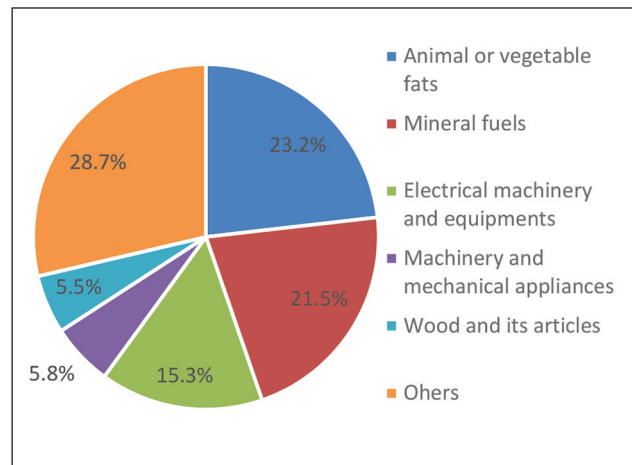
Figure 7.18: India's Major Imports from Malaysia (2016)

Table 7.5: Malaysia's Top Imported Products and India's Share, 2016

HS code	Product label	Malaysia's imports from world	Malaysia's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
85	Electrical machinery and equipment	46443.1	165.6	0.4%	8217.9
84	Machinery and mechanical appliances	20093.4	255.6	1.3%	13557.5
27	Mineral fuels, mineral oils and products of their distillation	17359.7	877.1	5.1%	27715.4
39	Plastics and its articles	6827.6	32.1	0.5%	5213.2
87	Transport vehicles other than railway or tramway	5780.5	27.4	0.5%	14988.3
90	Optical, photographic and cinematographic apparatus	5183.4	39.4	0.8%	2649.6
72	Iron and steel	4591.3	208.3	4.5%	6436.7
71	Pearls, precious or semi-precious stones and metals	3473.4	24.1	0.7%	42290.7
29	Organic chemicals	2987.6	265.8	8.9%	11252.9
40	Rubber and its articles	2880.9	23.3	0.8%	2407.9
88	Aircraft, spacecraft, and parts	2877.5	19.9	0.7%	3025.8
73	Articles of iron or steel	2769.9	41.9	1.5%	5820.7
74	Copper and its articles	2752.5	247.3	9.0%	2327.0
38	Miscellaneous chemical products	2530.0	47.3	1.9%	3150.4
76	Aluminium and its articles	2387.2	217.4	9.1%	2732.7
28	Inorganic chemicals and compounds of precious metals	1949.5	46.4	2.4%	1243.9
48	Paper, paperboard and articles of paper pulp	1730.1	9.3	0.5%	1184.1
26	Ores, slag and ash	1475.5	10.2	0.7%	1316.3
10	Cereals	1442.7	27.0	1.9%	5554.8
15	Animal or vegetable fats and oils	1350.0	16.0	1.2%	843.8

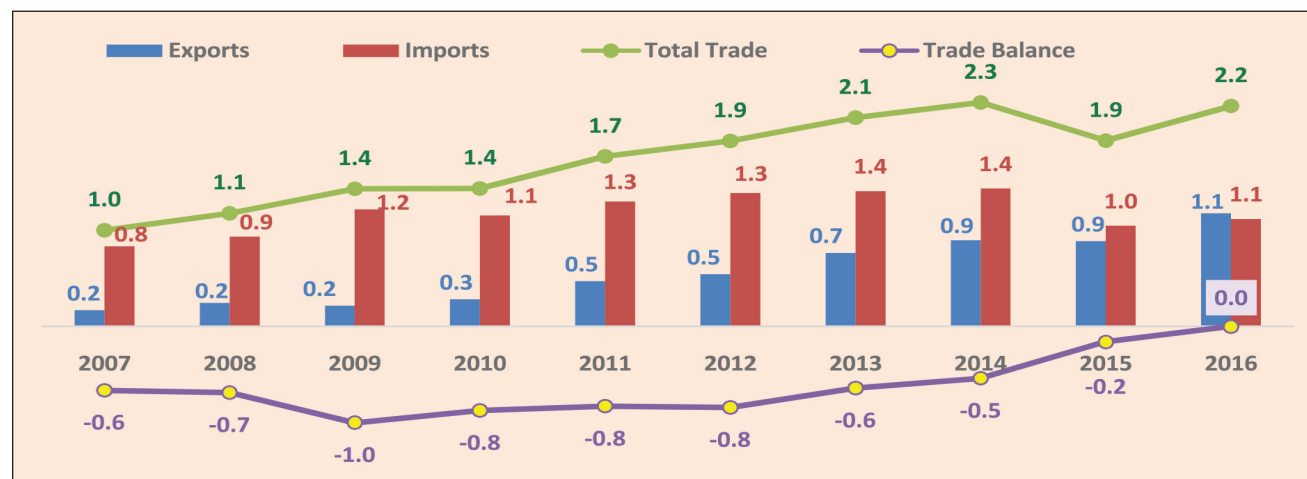
Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

In line with Malaysia's import demand and India's export capability, potential exists to enhance India's exports of certain major items imported by Malaysia. Based on analysis of the above table, potential items of exports to Malaysia would include:

- Electrical machinery and equipment (HS-85)
- Machinery and mechanical appliances (HS-84)
- Plastics and its articles (HS-39)
- Transport vehicles other than railway or tramway (HS-87)
- Optical, photographic and cinematographic apparatus (HS-90)
- Pearls, precious or semi-precious stones and metals (HS-71)

India's Trade with Myanmar

Figure 7.19: India's Bilateral Trade with Myanmar (US\$ bn)

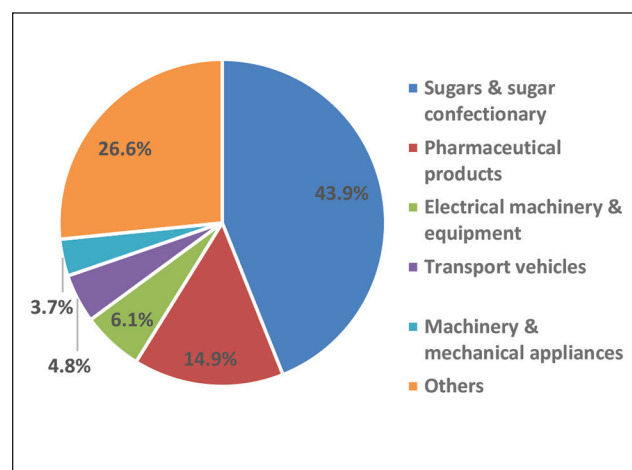


Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Myanmar

- India's trade with Myanmar has increased from US\$ 1 bn in 2007 to US\$ 2.2 bn in 2016.
- While exports grew over the period, from US\$ 0.2 bn to US\$ 1.1 bn in 2016, imports grew from US\$ 0.8 bn in 2007 to US\$ 1.1 bn in 2016.
- India stands as Myanmar's 3rd largest trading partner, with a share of 18.8% in Myanmar's total international trade in the year 2016.

Figure 7.20: India's Major Exports to Myanmar (2016)



Source: ITC, Geneva and Exim Bank Analysis

Figure 7.21: India's Major Imports from Myanmar (2016)

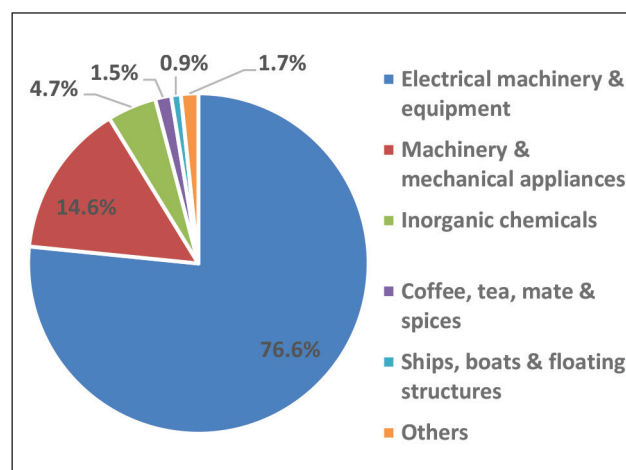


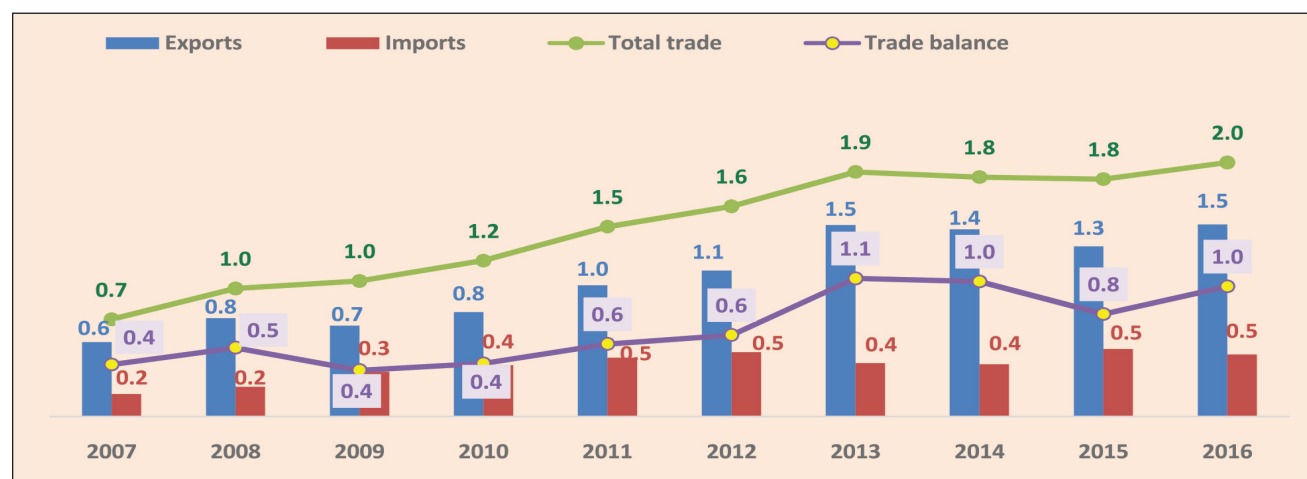
Table 7.6: Myanmar's Top Imported Products and India's Share, 2016

HS code	Product label	Myanmar's imports from world	Myanmar's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
87	Transport vehicles other than railway or tramway	2433.7	53.4	2.2%	14988.3
27	Mineral fuels, mineral oils and products of their distillation	1771.6	3.9	0.2%	27715.4
84	Machinery and mechanical appliances	1590.7	37.7	2.4%	13557.5
17	Sugars and sugar confectionery	1376.5	682.7	49.6%	1695.9
85	Electrical machinery and equipment	1128.4	27.9	2.5%	8217.9
72	Iron and steel	863.6	25.3	2.9%	6436.7
39	Plastics and its articles	582.6	8.3	1.4%	5213.2
73	Articles of iron or steel	579.8	13.9	2.4%	5820.7
15	Animal or vegetable fats and oils	552.9	18.3	3.3%	843.8
55	Man-made staple fibres	444.8	1.1	0.3%	2047.1
30	Pharmaceutical products	344.1	89.3	26.0%	13042.7
31	Fertilisers	314.9	9.2	2.9%	87.1
25	Salt, sulphur, earths and stone	243.1	1.2	0.5%	1815.6
48	Paper, paperboard and articles of paper pulp	231.6	4.6	2.0%	1184.1
23	Residues and waste from the food industries	184.5	10.9	5.9%	774.7
21	Miscellaneous edible preparations	182.3	2.1	1.1%	614.1
33	Essential oils and perfumery	151.6	7.1	4.7%	1539.7
11	Products of the milling industry	139.3	2.2	1.6%	228.2
40	Rubber and its articles	136.0	5.3	3.9%	2407.9

Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

Based on the table above and India's export capability, potential items of India's exports to Myanmar would include, among others:

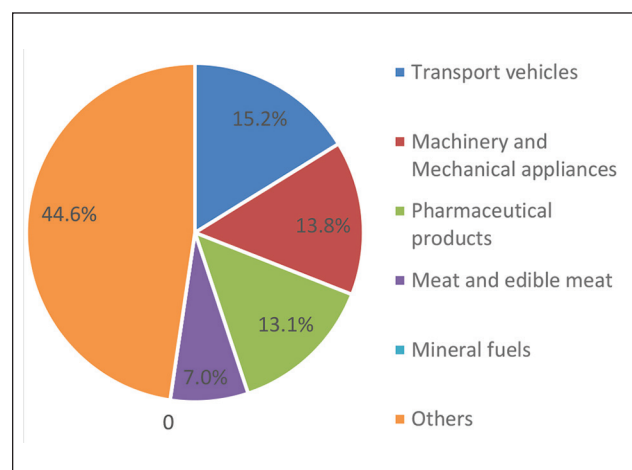
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Plastics and its articles (HS-39)
- Man-made staple fibres (HS-55)
- Salt, sulphur, earths and stone (HS-25)

India's Trade with Philippines**Figure 7.22: India's Bilateral Trade with Philippines (US\$ bn)**

Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Philippines

- India's trade with Philippines has grown over the past decade, from US\$ 0.7 bn in 2007 to US\$ 2 bn in 2016, driven by India's exports to Philippines.
- While exports increased from US\$ 0.6 bn in 2007 to US\$ 1.5 bn in 2016, imports remained relatively stable over the period 2009-16, amounting to US\$ 0.5 bn in 2016.
- India is the 14th largest trading partner to Philippines and its share in Philippines' total international trade accounted for 1.4% in the year 2016.

Figure 7.23: India's Major Exports to Philippines (2016)

Source: ITC, Geneva and Exim Bank Analysis

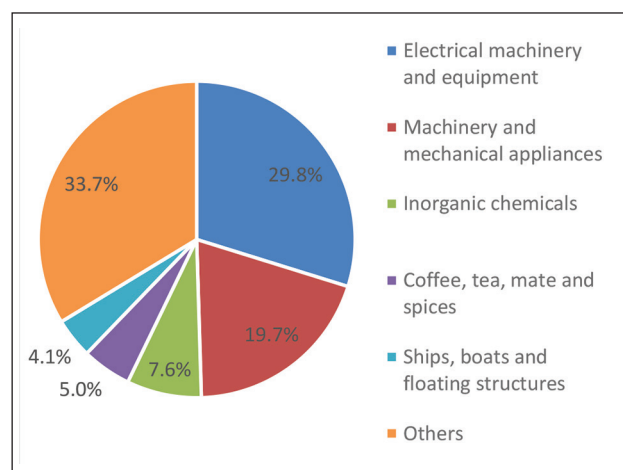
Figure 7.24: India's Major Imports from Philippines (2016)

Table 7.7: Philippines' Top Imported Products and India's Share, 2016

HS code	Product label	Philippines's imports from world	Philippines's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
85	Electrical machinery and equipment	20700.8	75.1	0.4%	8217.9
84	Machinery and mechanical appliances	11680.6	283.6	2.4%	13557.5
27	Mineral fuels, mineral oils and products of their distillation	8377.1	230.1	2.7%	27715.4
87	Transport vehicles other than railway or tramway	7607.8	212.9	2.8%	14988.3
39	Plastics and its articles	3061.6	14.0	0.5%	5213.2
72	Iron and steel	3037.1	16.6	0.5%	6436.7
88	Aircraft, spacecraft, and parts	1816.7	3.8	0.2%	3025.8
90	Optical, photographic, and cinematographic apparatus	1573.8	11.7	0.7%	2649.6
10	Cereals	1464.5	24.5	1.7%	5554.8
30	Pharmaceutical products	1429.9	177.2	12.4%	13042.7
23	Residues and waste from the food industries	1319.3	3.6	0.3%	774.7
21	Miscellaneous edible preparations	1291.4	7.3	0.6%	614.1
48	Paper, paperboard, and articles of paper pulp	1211.2	3.0	0.2%	1184.1
73	Articles of iron or steel	1124.4	35.4	3.1%	5820.7
38	Miscellaneous chemical products	989.8	30.6	3.1%	3150.4
29	Organic chemicals	973.4	39.2	4.0%	11252.9
02	Meat and edible meat	925.3	101.8	11.0%	3972.1
15	Animal or vegetable fats and oils	878.7	0.3	0.0%	843.8

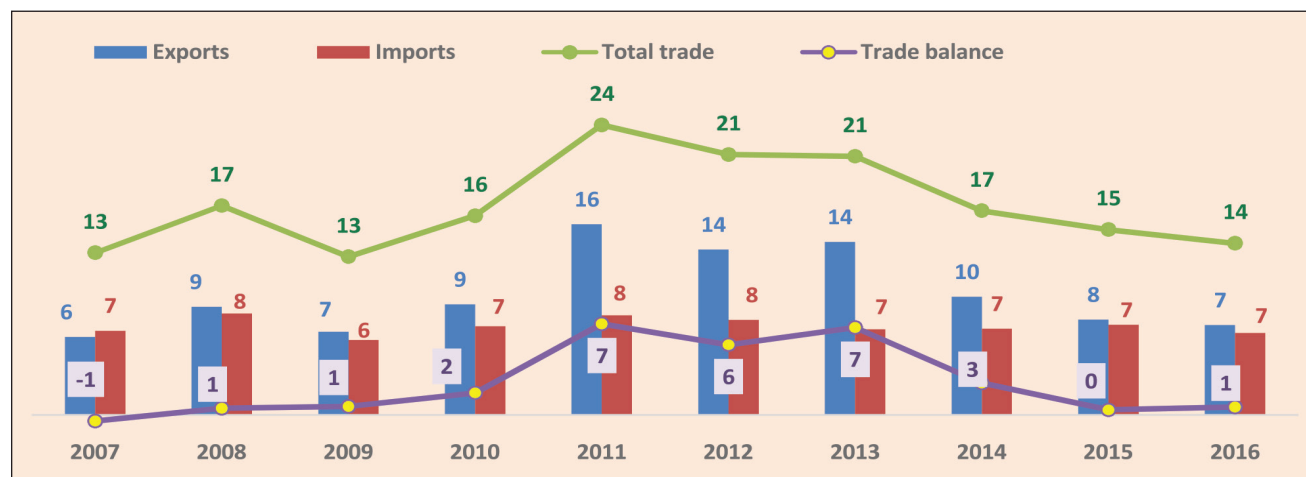
Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

Based on the above table and India's export capability, potential items of India's exports to Philippines would include:

- Electrical machinery and equipment (HS-85)
- Plastics and its articles (HS-39)
- Iron and steel (HS-72)
- Aircraft, spacecraft, and parts (HS-88)
- Optical, photographic, and cinematographic apparatus (HS-90)
- Cereals (HS-10)

India's Trade with Singapore

Figure 7.25: India's Bilateral Trade with Singapore (US\$ bn)

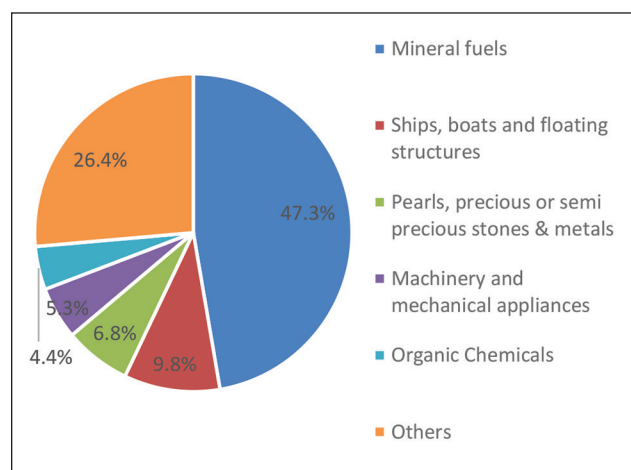


Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Singapore

- India's total trade with Singapore increased from US\$ 13.3 bn in 2007 to US\$ 14.1 bn, although it has witnessed a steady decline over the past five years from 2011.
- While exports moderately increased to US\$ 7.4 bn in 2016 from US\$ 6.4 bn in 2007, imports have declined to US\$ 6.7 bn in 2016 from US\$ 6.9 bn in 2007.
- India is Singapore's 10th largest trading partner and a net exporter to Singapore, and accounted for a share of 2.3% in Singapore's total international trade in 2016.

Figure 7.26: India's Major Exports to Singapore (2016)



Source: ITC, Geneva and Exim Bank Analysis

Figure 7.27: India's Major Imports from Singapore (2016)

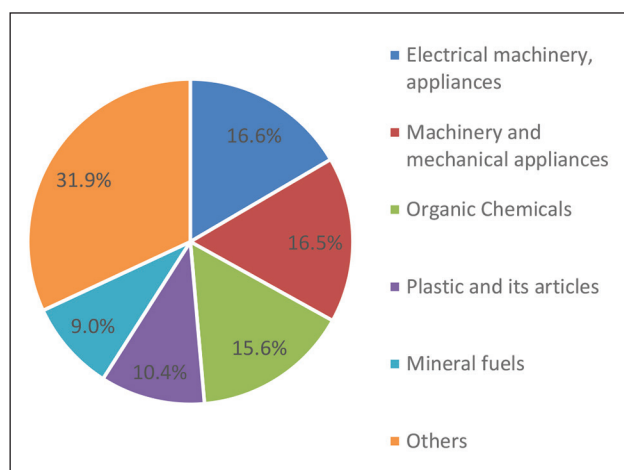


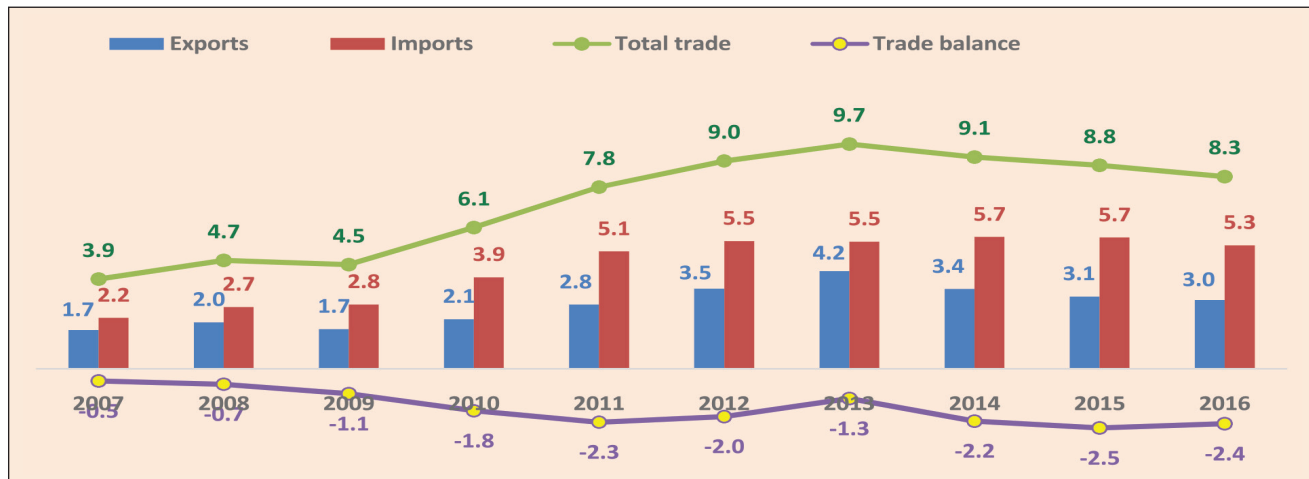
Table 7.8: Singapore's Top Imported Products and India's Share, 2016

HS code	Product label	Singapore's imports from world	Singapore's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
85	Electrical machinery and equipment	84880.4	209.9	0.2%	8217.9
27	Mineral fuels, mineral oils and products of their distillation	51073.2	2840.5	5.6%	27715.4
84	Machinery and mechanical appliances	42377.9	331.5	0.8%	13557.5
71	Pearls, precious or semi-precious stones and metals	11405.4	695.1	6.1%	42290.7
90	Optical, photographic and cinematographic apparatus	11107.8	153.0	1.4%	2649.6
88	Aircraft, spacecraft, and parts	6720.8	39.9	0.6%	3025.8
39	Plastics and its articles	6687.3	49.3	0.7%	5213.2
87	Transport vehicles other than railway or tramway	5548.3	18.7	0.3%	14988.3
29	Organic chemicals	5464.8	271.9	5.0%	11252.9
38	Miscellaneous chemical products	4050.8	41.7	1.0%	3150.4
73	Articles of iron or steel	3339.4	38.3	1.1%	5820.7
33	Essential oils and perfumery	3050.4	48.5	1.6%	1539.7
22	Beverages, spirits and vinegar	2389.0	17.2	0.7%	308.1
30	Pharmaceutical products	2334.1	68.7	2.9%	13042.7
72	Iron and steel	2158.6	17.0	0.8%	6436.7
91	Clocks and watches and parts	1761.5	7.8	0.4%	91.1
74	Copper and its articles	1699.0	310.2	18.3%	2327.0
42	Articles of leather	1642.8	12.3	0.7%	2345.8

Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

In line with Singapore's import demand and India's export capability, potential exists to enhance India's exports of certain major items imported by Singapore. Based on analysis of the above table, potential items of exports to Singapore would include:

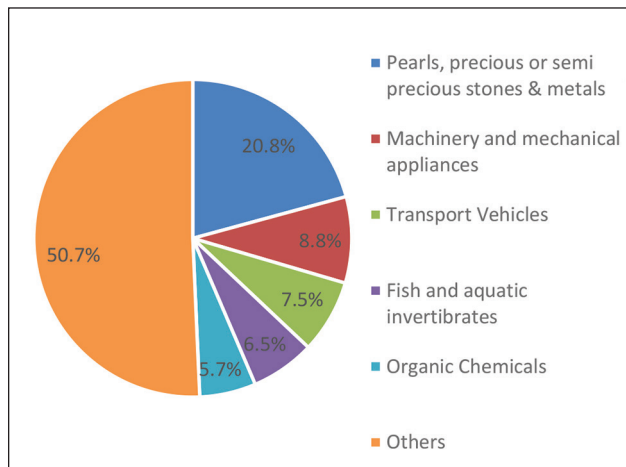
- Electrical machinery and equipment (HS-85)
- Machinery and mechanical appliances (HS-84)
- Optical, photographic and cinematographic apparatus (HS-90)
- Aircraft, spacecraft, and parts (HS-88)
- Plastics and its articles (HS-39)
- Transport vehicles (HS-87)

India's Trade with Thailand**Figure 7.28: India's Bilateral Trade with Thailand (US\$ bn)**

Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Thailand

- India's total trade with Thailand more than doubled over the past decade from US\$ 3.9 bn in 2007 to US\$ 8.3 bn in 2016, while witnessing a moderation from 2013 onwards.
- Exports amounted to US\$ 3 bn in 2016 up from US\$ 1.7 bn in 2007, while imports also increased to US\$ 5.3 bn from US\$ 2.2 bn over the same period.
- India ranks as Thailand's 16th largest trading partner and a net importer from Thailand, with a share of 2% in Thailand's total international trade.

Figure 7.29: India's Major Exports to Thailand (2016)

Source: ITC, Geneva and Exim Bank Analysis

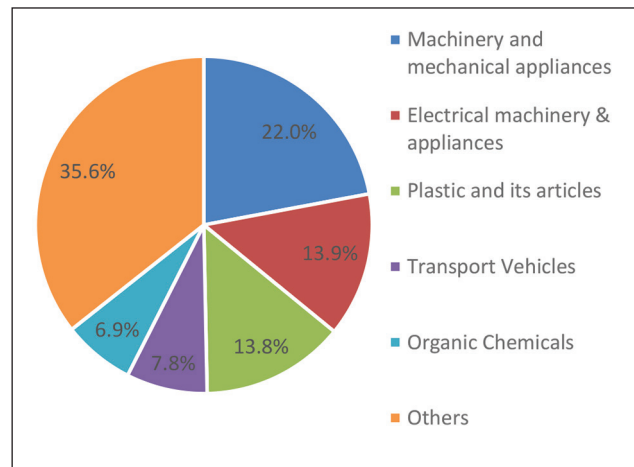
Figure 7.30: India's Major Imports from Thailand (2016)

Table 7.9: Thailand's Top Imported Products and India's Share, 2016

HS code	Product label	Thailand's imports from world	Thailand's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
85	Electrical machinery and equipment	38522.5	163.1	0.4%	8217.9
84	Machinery and mechanical appliances	26224.8	283.5	1.1%	13557.5
27	Mineral fuels, mineral oils and products of their distillation	24617.9	43.7	0.2%	27715.4
72	Iron and steel	9531.1	122.8	1.3%	6436.7
87	Transport vehicles other than railway or tramway	8831.4	195.8	2.2%	14988.3
71	Pearls, precious or semi-precious stones and metals	8668.5	306.7	3.5%	42290.7
39	Plastics and its articles	8034.2	81.0	1.0%	5213.2
73	Articles of iron or steel	6797.3	72.9	1.1%	5820.7
90	Optical, photographic, and cinematographic apparatus	5414.8	37.2	0.7%	2649.6
29	Organic chemicals	3717.5	168.1	4.5%	11252.9
74	Copper and its articles	3014.6	10.5	0.3%	2327.0
38	Miscellaneous chemical products	2998.1	67.9	2.3%	3150.4
76	Aluminium and its articles	2961.9	20.3	0.7%	2732.7
88	Aircraft, spacecraft, and parts	2749.3	0.1	0.0%	3025.8
03	Fish and aquatic invertebrates	2742.7	182.7	6.7%	5209.1
40	Rubber and its articles	2192.5	44.6	2.0%	2407.9
30	Pharmaceutical products	2129.7	114.2	5.4%	13042.7
23	Residues and waste from the food industries	1974.2	17.2	0.9%	774.7
28	Inorganic chemicals and compounds of precious metals	1626.7	27.1	1.7%	1243.9
33	Essential oils and perfumery	1573.7	15.6	1.0%	1539.7

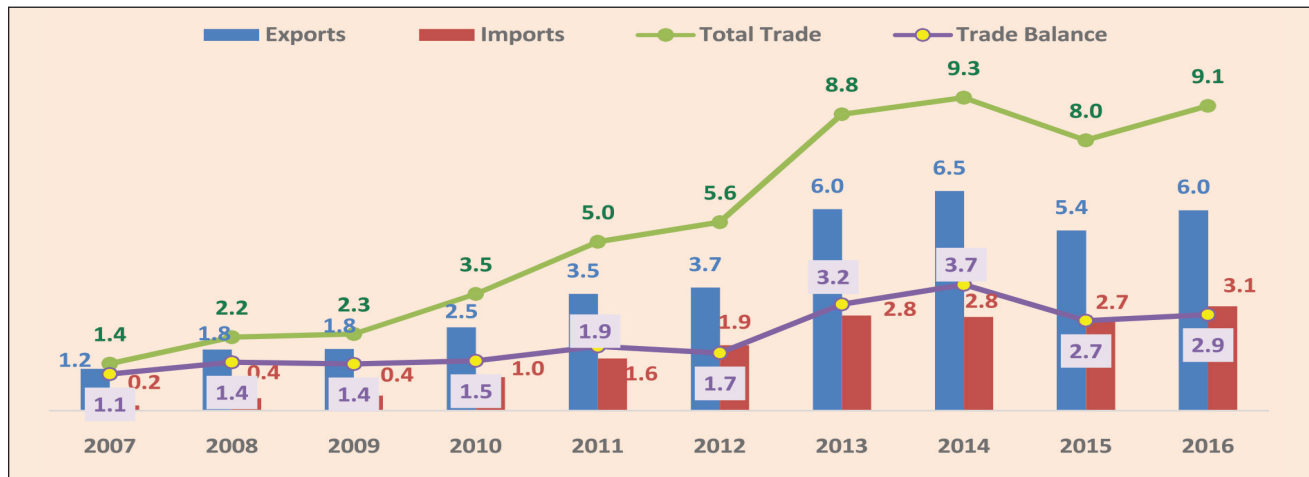
Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

Based on the above table and India's export capability, in line with Thailand's import demand, potential items of India's exports to Thailand would include:

- Electrical machinery and equipment (HS-85)
- Machinery and mechanical appliances (HS-84)
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Iron and steel (HS-72)
- Plastics and its articles (HS-39)
- Articles of iron or steel (HS-73)

India's Trade with Vietnam

Figure 7.31: India's Bilateral Trade with Vietnam (US\$ bn)

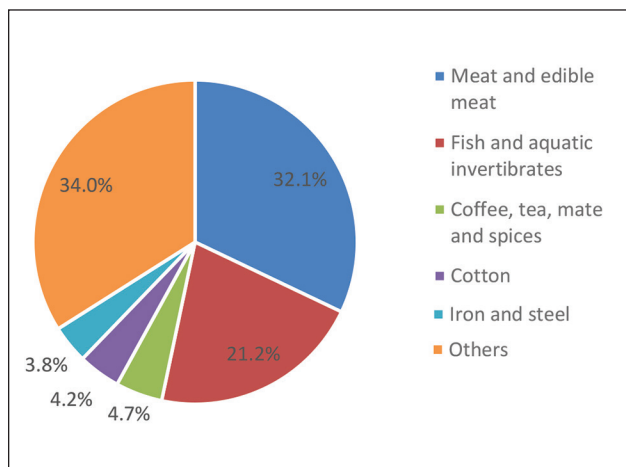


Source: ITC, Geneva and Exim Bank Analysis

India's Trade with Vietnam

- India's total trade with Vietnam has increased at a CAGR of 23.1% over the past decade, growing from US\$ 1.4 bn in 2007 to US\$ 9.1 bn in 2016, witnessing a sharp pickup from 2012 onwards.
- While exports grew at a CAGR of 19.6% up from US\$ 1.2 bn in 2007 to US\$ 6 bn in 2016, imports grew to US\$ 3.1 bn up from US\$ 0.2 bn during the same period, also registering a healthy CAGR of 35.6%.
- India is a net exporter to Vietnam and its share in Vietnam's total international trade accounted for 2.2% in the year 2016.

Figure 7.32: India's Major Exports to Vietnam (2016)



Source: ITC, Geneva and Exim Bank Analysis

Figure 7.33: India's Major Imports from Vietnam (2016)

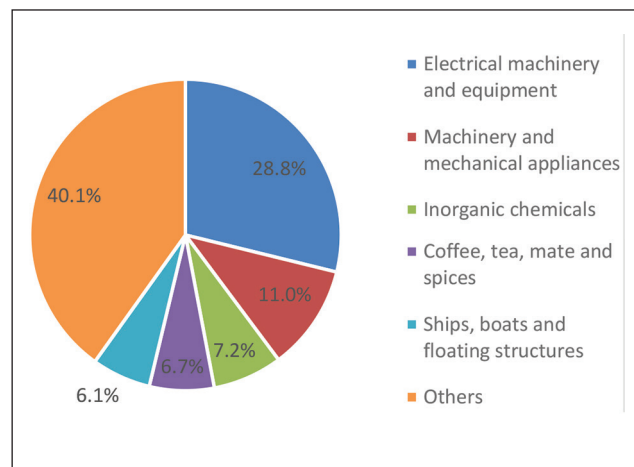


Table 7.10: Vietnam's Top Imported Products and India's Share, 2016

HS code	Product label	Vietnam's Imports from the World	Vietnam's imports from India		India's exports to world
		Value in 2016 (US\$ mn)	Value in 2016 (US\$ mn)	Share (%)	Value in 2016 (US\$ mn)
85	Electrical machinery and equipment and parts	45514.3	122.2	0.3%	8217.9
84	Machinery and mechanical appliances	20891.8	215.4	1.0%	13557.5
39	Plastics and its articles	9614.6	87.8	0.9%	5213.2
72	Iron and steel	8777.8	226.8	2.6%	6436.7
27	Mineral fuels, mineral oils and products of their distillation	7636.2	129.3	1.7%	27715.4
87	Transport Vehicles other than railway or tramway	6441.6	196.7	3.1%	14988.3
76	Aluminium and its articles	5899.0	11.7	0.2%	2732.7
90	Optical, photographic, and cinematographic apparatus	5487.8	29.4	0.5%	2649.6
03	Fish and crustaceans, and other aquatic invertebrates	5342.0	1264.6	23.7%	5209.1
60	Knitted or crocheted fabrics	5198.1	1.5	0.0%	265.9
52	Cotton	3715.4	251.7	6.8%	6262.5
08	Edible fruit and nuts	3513.5	14.8	0.4%	1596.3
02	Meat and edible meat	3247.5	1911.2	58.9%	3972.1
55	Man-made staple fibres	3227.4	40.2	1.2%	2047.1
54	Man-made filaments; strip and man-made textile materials	3095.5	33.7	1.1%	1925.4
23	Residues and waste from the food industries	3063.9	140.3	4.6%	774.7
29	Organic chemicals	2604.9	97.6	3.7%	11252.9
73	Articles of iron or steel	2595.8	15.7	0.6%	5820.7
88	Aircraft, spacecraft, and parts thereof	2352.8	0.1	0.0%	3025.8

Source: ITC, Geneva and Exim Bank Analysis; Note: - nil

In line with Vietnam's import demand and India's export capability, potential exists to enhance India's exports of major items imported by Vietnam. Based on analysis of the above table, potential items of exports to Vietnam would include:

- Electrical machinery and equipment (HS-85)
- Machinery and mechanical appliances (HS-84)
- Plastics and its articles (HS-39)
- Mineral fuels, mineral oils and products of their distillation (HS-27)
- Aluminium and its articles (HS-76)
- Optical, photographic, and cinematographic apparatus (HS-90)

8. ASEAN-INDIA BILATERAL INVESTMENT: RECENT TRENDS AND PROSPECTS

Bilateral Investment relations between ASEAN and India until now remain only partially explored. Although Singapore, and to some extent, Malaysia have significant investments in India, the investment relations with other ASEAN nations remain rather untapped. An array of aspects, including regulatory factors, impacts such investment decisions. However, considering ASEAN's closer proximity to India and complementarities of the two economies, two-way investments are noticeably limited. The emerging growth trajectories of India and ASEAN highlight major opportunities for the two to extend their investment footprints across the region.

Table 8.1 summarizes trends in cumulative Indian FDI in joint ventures and wholly owned subsidiaries (FDI outflow) in ASEAN as well as approved FDI inflows from ASEAN economies to India over past two decades. The share of ASEAN in India's total approved FDI inflows increased nearly four-fold from 2 percent in 1996²⁸ to about 17.4 percent during 2016, while ASEAN share in India's FDI outflows were at 22.9 percent in 2016 up from 0.16 percent in 1996²⁹.

Table 8.1: India's Bilateral FDI Flows with ASEAN

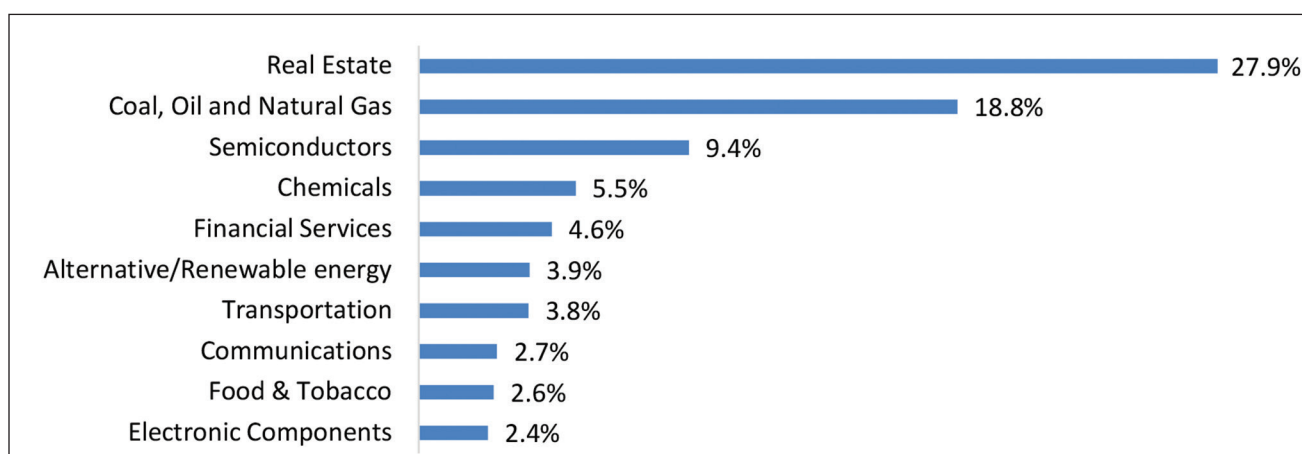
Countries	FDI Outflows from India US\$ million (April 1996 to March 2017)	Share in India's total FDI outflows to ASEAN (%)	FDI Inflows to India US\$ million (April 2000 to June 2017)	Share in India's total FDI inflows from ASEAN (%)
Brunei	2.3	0.003	0.18	-
Cambodia	27.9	0.04	0.05	-
Indonesia	1220.5	1.74	626.88	1.1
Lao PDR	16.1	0.02	0	-
Malaysia	1383.4	1.98	859.12	1.4
Myanmar	230.6	0.33	8.97	0.01
Philippines	249.5	0.36	225.28	0.4
Singapore	65783.6	93.96	57,600.41	96.6
Thailand	570.6	0.81	324.69	0.5
Vietnam	529.2	0.76	4.76	0.008
ASEAN Total	70013.9	100	59650.34	100
Share of ASEAN in India's total Investments (%)	22.9	-	17.4	-

Source: Reserve Bank of India, Dept of Commerce, Ministry of Commerce and Industry, Govt. of India

^{28,29}R.Sen, Asher and Rajan "ASEAN-India Economic Relations: Current Status and Future Prospects", 2004

Among the ten ASEAN countries, Singapore has been the major investor in India, with a share of 96.6 percent in India's total FDI inflows from ASEAN, followed by Malaysia and Indonesia, with a share of 1.4 percent and 1.1 percent respectively. Malaysia, albeit with a relatively lesser share, has also made considerable investments in intensifying the capacities in selected infrastructural areas such as logistics, highways, and ICTs in India, particularly before the 1997 crisis³⁰. ASEAN's FDI flows to India have primarily been in real estate sector, which has a share of 27.9 percent in India's total FDI inflows from ASEAN, followed by coal, oil and natural gas sector, with a share of 18.8 percent (**Figure 8.1**). Other major sectors which attracted FDI from ASEAN to India include semiconductors, chemicals, financial services, renewable energy, and transportation, among others.

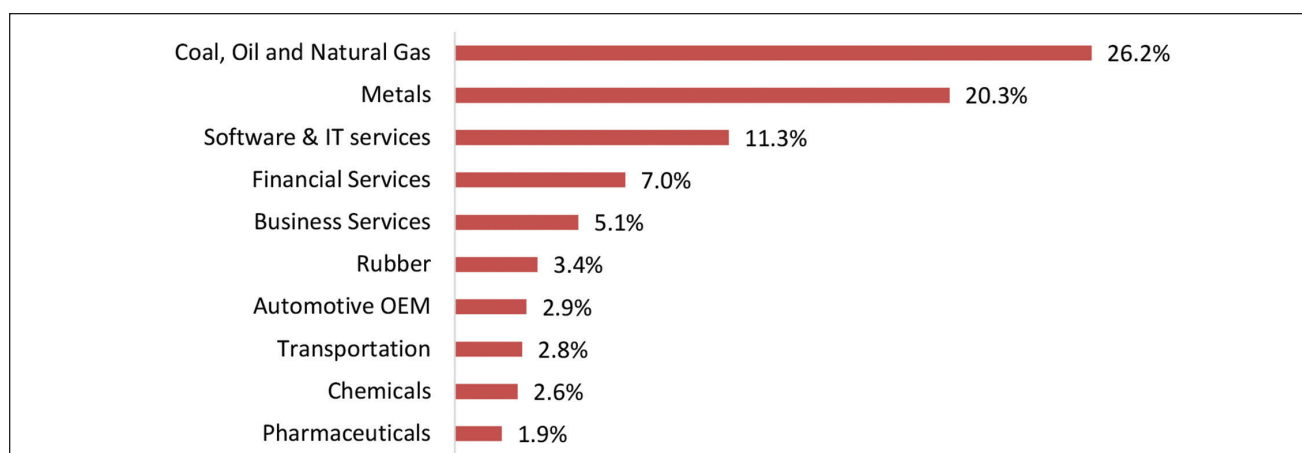
Figure 8.1: India's FDI Inflows from ASEAN – Top 10 Industry Sectors



Source: FDI Markets Database³¹

Although Indian FDIs in some of the ASEAN countries have been on the rise over the recent years, their presence continues to remain marginal, in cumulative terms. Such contrasting presence is clearly evident from the skewed investments in Singapore, which constitutes for nearly 94 percent of India's total FDI outflows to ASEAN, with other ASEAN economies receiving only a minimal share of FDI from India.

Figure 8.2: India's FDI Outflow to ASEAN – Top 10 Industry Sectors



Source: FDI Markets Database

³⁰Asher, M. G., R. Sen and S. Srivastava, "ASEAN-India : Emerging Economic Opportunity", 2003

³¹Note: The Financial Times "FDI Markets" tracks cross-border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Major portion of India's outward FDI to ASEAN is directed towards coal, oil and natural gas sector and metals sector, followed by services sectors such as software and IT services, financial services as well as business services (**Figure 8.2**).

Potential Areas for Investments in ASEAN

Asia-Pacific, including ASEAN, drives two-third of world's deal activities, which include completed mergers & acquisitions (M&A), public-listed and private business deals. ASEAN is marked as a key growth hot spot in the world today. With its 10 diverse markets, of which a number are progressing to be developed nations and some are in the developing stage, there are wide business and investment opportunities.

ASEAN is implementing ASEAN Investment Area (AIA), which is an outcome of ASEAN Comprehensive Investment Agreement (ACIA). ASEAN is undertaking domestic reforms in tandem with the AEC (ASEAN Economic Community) Score Card and is also implementing the ASEAN Investment Guarantee (AIG) scheme. There are proposals to improve ASEAN-India investment environment. With these measures in place, FDI between ASEAN and India is expected to improve in the near future³². Keeping this in view, following are some potential areas for enhancing India's investments in ASEAN.

Digital Industry

Digital industry is fast-growing and being driven by improving standard of living, changing lifestyle and a thriving millennial population. The digital industry encompasses two broad segments, viz. Information Technology (IT) and Telecommunication. ASEAN countries are thriving to become one of the top five global regions in terms of the application of digital technologies. ASEAN's digital industry currently generates a revenue of approximately US\$ 150 billion annually, of which, connectivity services such as mobile access, fixed access, satellite and IP services, constitutes for 35 percent of the revenues, while online services such as communication and social media, search media, entertainment and transactions, constitute for 40 percent of the revenue³³. ASEAN's strong and vibrant economy, favourable demographics, ICT investments, and ongoing economic integration are set to make the region a global leader in the digital industry.

ASEAN's ICT sector has evolved at a phenomenal pace in the past few years. ICT investments are growing at nearly 15 percent annually. Indonesia alone has set aside US\$ 150 billion for ICT for a nationwide fibre optic cable network project, which will cover nearly 36,000 km with cable, both underwater and over the ground. As per Indonesia's Ministry of Communications and Information, this project aims to reach 440 cities in the country and is expected to be completed in 2018.³⁴ Indonesia has also established a National Broadband Network strategy under its Masterplan for Acceleration and Expansion of Indonesia Economic Development 2011-2025 (MP3EI). Under this plan, the wired access target for a 20Mbps connection is set to rise from 21% to 75%. On the other hand, Philippines' Business Process Outsourcing (BPO) industry illustrates how new economic sectors are assisted by ICT development and has become the country's largest source of private sector employment and the second largest contributor of foreign exchange after remittances.

³²ASEAN India Centre at RIS, "ASEAN-India Economic Relations: Opportunities and Challenges", 2015

³³AT Kearney, "The ASEAN Digital Revolution", 2016

³⁴ASEAN Secretariat, "Investing in ASEAN, 2017"

It is expected that Mobile broadband subscriptions in Southeast Asia and Oceania will grow at a CAGR of 15 percent, reaching more than 100 percent population penetration by 2021. In 2016, Singapore, Malaysia and Thailand are expected to pass 100 percent subscription penetration for mobile broadband, while Myanmar, Vietnam, Indonesia and Philippines are expected to show the largest growth in mobile broadband subscription penetration during the period. Mobile broadband services are foreseen to account for more than 90 percent of total mobile subscriptions in the region by the end of 2021³⁵. It is also predicted that Singapore, Malaysia and Thailand will be among the top 20 countries in the global digital ranking by 2025, while most of the other ASEAN economies will be position in the top 40 worldwide.

Financial Services Sector

Corresponding to the surge in FDI and trade activities across the region, the size of ASEAN's financial system has more than doubled over the past decade. While ASEAN's total banking assets doubled from US\$ 1.05 trillion in 2005 to US\$ 2 trillion in 2014, its market capitalization nearly tripled over the period, from US\$ 683 billion in 2005 to US\$ 2.2 trillion in 2016, growing at a CAGR of 11.2 percent over the period³⁶. According to Asian Bonds Monitor, the issuance of government and corporate bonds in ASEAN-6³⁷ has also tripled to US\$ 1.1 trillion in 2016 from US\$ 368 billion in 2005 (growing at a CAGR of 10.4 percent).

Singapore and Malaysia have the most established financial markets in the region and are set to be at the forefront in the integration of ASEAN's banking market, while in the capital markets, experts consider that ASEAN has been making sound progress on integration. Thailand, Malaysia and Singapore have introduced concrete measures to widen their market linkages and harmonise disclosure requirements through the introduction of ASEAN Disclosure Standards. Investment procedures have been streamlined by these three countries with the ASEAN Trading Link, which provides a single gateway to stock exchanges in all three countries, allowing shares to be purchased through a local stockbroker in all the markets.

ASEAN members have also agreed to liberalise the cross-border supply of marine and aviation insurance, in addition to goods in international transit insurance. This move is expected to allow companies to offer cover across ASEAN member states, helping them to reduce costs and encourage intraregional trade. Despite several challenges, ASEAN Finance Ministers and Central Bank Governors are determined to press ahead with liberalisation in the post AEC phase, leading up to 2020³⁸.

These factors continue to make ASEAN an attractive destination for investors. The deepening of ASEAN's financial system indicates well for its market stability and financial resilience. According to the Asian Development Bank, the way ahead for ASEAN financial institutions encompasses development and expansion of their assets, in order to compete against global players in international financial markets. ASEAN offers a wide range of opportunities and vast potential for growth with its positive demographic trends, diverse cultures and markets,

³⁵"Ericsson Mobility Report: Southeast Asia and Oceania", June 2016

³⁶Ernst and Young, "Rediscover ASEAN: A growth story of 10 Countries"

³⁷ASEAN-6 comprises Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam

³⁸ASEAN Secretariat, "Investing in ASEAN, 2017"

and access to financial services in the region is crucial for its success. Thus, financial services as a pan-ASEAN system offer huge potential to the investors to support their regional aspirations. The combination of strong local banks, complemented by regional banks that can provide cross border expertise, will enable investors to establish a solid foundation for growth in ASEAN.

Physical Infrastructure

A significant part of ASEAN's economic growth is attributable to the expansion of its manufacturing industry, among other factors. Manufacturers have been shifting operations towards ASEAN countries, owing to lower overall costs, increased domestic consumption and improving physical infrastructure. With long-range of investment initiatives in place, to better link ASEAN markets through improved infrastructure, including the Singapore to Kuala Lumpur HSR, ASEAN is fast evolving to be the world's infrastructure hot spot. As ASEAN undergoes economic and population growth, as reflected by increasing urbanization and industrialization, this has called for a further rise in demand for infrastructure development³⁹. By 2025, there are a number of key infrastructure projects in pipeline which are expected to improve efficiencies in the delivery of goods, services and people across ASEAN.

According to Asian Development Bank⁴⁰, it is expected that developing Asia will be required to invest US\$ 26 trillion over the period from 2016 to 2030 (US\$1.7 trillion annually) on infrastructure, in order to maintain current growth rates, if they also take into account the cost of climate mitigation and adaptation⁴¹. The total infrastructure investment needs in ASEAN from 2016 to 2030, according to the same study, is expected to be US\$ 2.8 trillion (baseline scenario) and US\$ 3.1 trillion (climate-adjusted estimate⁴²). This works out to an annual investment need of US\$ 184 billion and US\$ 210 billion respectively. There is, thus, a huge demand for infrastructure spending, going forward, in ASEAN.

Some key focus areas of investment, in this regard, would include:

- o **Multimodal Transport Connectivity:** ASEAN multimodal transport connectivity (i.e., air, land, rail and sea) initiative is expected to improve logistic efficiency and support the growth of commerce, trade and investment. ASEAN's transformation to be well-connected via enhanced logistic efficiencies will further improve its linkages to the global supply chain and support the region's growth in trade and tourism activities. Some of the initiatives under this plan are highlighted in **Table 8.2**.
- o **Strengthening Energy Security:** This essentially involves utilities infrastructure to provide energy security to meet industrial, commercial and residential demands. The International Energy Agency (IEA) has forecasted that by 2040, ASEAN's energy demand will increase 80% to 1,070 metric tonnes of oil equivalent (MTOE) and electricity demand will triple to 2,200 terawatt-hours (TWh). As such, ASEAN's two flagships projects to ensure ASEAN's energy security and sustainability, viz. APG and TAGP⁴³, involve bilateral and regional partnerships to connect and integrate electricity grid and gas pipelines across ASEAN. Some electricity grids are already interconnected, while some are being developed, and more are expected to be completed by

³⁹PwC, "Infrastructure Opportunities in ASEAN", 2017

⁴⁰Meeting Asia's Infrastructure Needs, ADB, 2017

⁴¹World Urbanization Prospects: The 2014 Revision, UN, 2014

⁴²Sustainable Development Goals, UN, January 2016

⁴³ASEAN Power Grid & Trans-ASEAN Gas Pipeline

Table 8.2: ASEAN's Multimodal Connectivity Initiatives

Air Connectivity ASEAN Single Aviation Market (ASAM) <ul style="list-style-type: none"> o For facilitating free, efficient, safe and secure movement of people and goods within and potentially beyond ASEAN o In 2014, ASEAN recorded a new high for visitor arrivals into the region – more than 105 million, a 2.8% increase from 2013. o No restriction on frequency and maximum capacity of flights o No restriction to fly from home country to foreign country (as transit point) 	Land Connectivity ASEAN Highway Network (AHN) <ul style="list-style-type: none"> o Road spanning 38,400 km connecting ASEAN land transport with China and India o Linking of national highways and road networks with neighbouring countries such as the road connection of Thailand with Malaysia, Malaysia with Singapore, Lao PDR with Thailand and the Trans-Borneo highway.
Rail Connectivity Rail Link Projects <ul style="list-style-type: none"> o A rail system spanning over 6,890 km connecting linking ASEAN key cities, is expected to be the interchange for the proposed HSR link to Singapore via Vietnam, Laos, Thailand and Malaysia (Singapore-Kunming Rail Link) o Intercountry rail projects to be developed at the sub regional level, will further connect ASEAN Member States. A number of rail projects have the potential to connect the CLMV countries under the GMS programme. o Thailand has announced plans to start building high-speed rail lines running from north to south in the country. 	Sea Connectivity ASEAN Roll-On Roll-Off (RO-RO) Shipping Network and Short Sea Shipping <ul style="list-style-type: none"> o Consolidate maritime connectivity through the development of port and port-associated industries to reduce shipping time o Work-in-progress to operationalize three priority routes across <ul style="list-style-type: none"> i. Indonesia-Malaysia ii. Indonesia-Malaysia-Thailand iii. Philippines-Indonesia o The aim is to establish RORO routes in ASEAN to link mainland and archipelagic regions to provide a seamless intermodal transport system.

Source: ASEAN Investment Report, 2015 and EY Rediscover ASEAN, 2017

2026. The increase in power purchase agreements, together with existing and ongoing grid connection, is expected to facilitate in further linking the ASEAN Member States. In gas supply infrastructure, significant developments have already been made. Gas can now be moved to demand centres both through pipelines and through a network of gas terminal facilities for LNG⁴⁴. These projects not only promote efficient utilization, optimization and sharing of ASEAN's energy resources, but also facilitate cross-border supply, transportation and distribution of electricity and gas among ASEAN members.

⁴⁴ASEAN Secretariat, "ASEAN Investment Report", 2015

Evidently, the overall investment needs for regional physical infrastructure projects are huge. Given that public financing is limited, funding for some of these connectivity projects will require the involvement of multiple stakeholders, mainly the private sector, both ASEAN and foreign companies, who would play a greater role to help deliver these future projects to enhance regional connectivity.

Agriculture Sector

Agriculture's contribution to GDP remains immensely important for the most ASEAN countries, thus, making it a key element of economic growth. The farming industry employs nearly 80 percent of the population in the case of Lao PDR, 70 percent in Myanmar, 47 percent in Vietnam, 40 percent in Thailand, 35 percent in Indonesia and 32 percent in the Philippines. ASEAN countries cultivate a varied range of food products, such as rice, fruit, vegetables and coffee. Some of them are also prime producers of crops such as palm oil, cashew nuts and pepper, globally. In addition to food, ASEAN countries are also important world suppliers of other agricultural commodities such as rubber, which accounts for 3.3 million tonnes a year and represents nearly 70 percent of global production⁴⁵.

Agriculture remains a focus area for ASEAN, driven by rapid population expansion and changing food consumption patterns. There is, thus, a drive to improve farming methods and grow more food, as food security becomes a primary focus for the region, especially with the number of people living in the region projected to reach 800 million by 2050. This is set to also increase the demand for more dairy and meat products, particularly in Indonesia, Malaysia and Thailand, as they are the most exposed to greater demand for animal protein products.

ASEAN is in an increasingly influential position to develop and implement collective region-wide responses to these problems, as national level strategies no longer seem sufficient. These efforts are being conducted through bodies such as ASEAN Integrated Food Security (AIFS) Framework and the ASEAN Multi-Sectoral Framework on Climate Change: Agriculture Fisheries and Forestry towards Food Security (AFCC), among others⁴⁶.

A recent assessment envisages that Vietnam's agriculture sector has abundant opportunities for future growth and for developing food exports, as the sector has made enormous progress despite being vulnerable to climate hazards. Experts also believe that agriculture has the potential to make greater contribution to the economy of Myanmar, with some significant investment, greater mechanisation, and legal changes to land laws in place. New methods of cultivation are also in progress in countries such as Indonesia, wherein the Indonesian government has initiated a rice partnership, in order to engage smallholder rice farmers in increasing rice cultivation through the use of new technologies and innovative financing programmes.

ASEAN could also act as the supply base for agricultural produce, as its geographical location makes it ideal for supplying food and other perishable goods to its larger neighbours in the region. The need for developing and modernising farming methods is well recognized in the region. The investment space is widening for private investors in terms of providing needed infrastructure to increase crop production, professionalizing and systematizing small-scale food processing, driving high-tech agribusiness, and other activities along the value chain.

^{45,46}ASEAN Secretariat "Investing in ASEAN", 2017

Healthcare

In the AEC Blueprint 2015⁴⁷, healthcare services were mentioned as one of the priority sectors to be substantially liberalised by 2010. Under this area, the specific strategic objectives included

- (i) Ensuring access to adequate and affordable healthcare, medical services and medicine, and promoting healthy lifestyles for the peoples of ASEAN;
- (ii) Enhancing regional preparedness and capacity through integrated approaches to prevention, surveillance and timely response to communicable and emerging infectious diseases; and
- (iii) Reducing significantly the overall prevalence of illicit drug abuse in the general population.

There has been considerable removal of restrictions in healthcare services by 2010. Enhancement of medical tourism in ASEAN countries is one of the key positive results of such measures. Thailand, Singapore and Malaysia are positioning themselves as medical tourism hubs and enjoy a reputation for providing outstanding treatments at internationally accredited hospitals — Thailand and Singapore respectively have 30 and 15 private hospitals accredited by Joint Commission International (JCI)⁴⁸. With regard to the movement of skilled labours across the region, there were three relevant Mutual Recognition Arrangements (MRAs) under healthcare services. However, the nursing, medical and dental services had not reached the right level of competency standards, unlike other professions with ASEAN MRAs and therefore, the expected free flow of healthcare professionals in the region has not fully materialised.

Under the new AEC Blueprint 2025⁴⁹, the cooperation in healthcare sector continues to promote the development of a strong healthcare industry that can contribute to better healthcare facilities, products and services to meet the growing demand for affordable and quality healthcare in ASEAN.

The strategic measures under this sector include:

- i. Continue opening up of private healthcare market and public-private partnership (PPP) investments in provision of universal healthcare in the region.
- ii. Further harmonise standards and conformance in healthcare products and services, such as common technical documents required for registration processes and nutrition labelling.
- iii. Promote sectors with high growth potential such health tourism and e-healthcare services, which will not have negative impact on the healthcare system of each ASEAN member state.
- iv. Promote strong health insurance systems in the region.
- v. Further facilitate the mobility of healthcare professionals in the region.
- vi. Enhance further the development of ASEAN regulatory framework on traditional medicines and health supplements, through the setting of appropriate guidelines or frameworks.
- vii. Continue to develop and issue new healthcare product directives to further facilitate trade in healthcare products in the region.

⁴⁷AEC Blueprint 2015

⁴⁸IPSOS, "Geared for health — ASEAN's growing medical and healthcare industry", July 2015

⁴⁹AEC Blueprint 2025

World Health Organization data estimates that the average healthcare expenditure per capita in ASEAN is US\$ 544, and Singapore and Brunei top the list with expenditure per capita of US\$ 2,273 and US\$ 1,449, respectively. ASEAN member states are expected to increase their spending to provide better healthcare services and catch up with the average spending rate in fully developed countries. Several member states have taken important steps in this regard. Singapore is in the process of adding 3,700 more beds and recruiting 20,000 more workers under its Healthcare 2020 Masterplan, while Malaysia has increased its budget for healthcare for 2017, and has announced plans to build and upgrade new hospitals and clinics in Perlis, Kuching, Mukah, Jempol, Muar and Johor Bahru⁵⁰.

Private sector is playing a greater role in some countries such as in Thailand, where Bangkok Dusit Medical Services is investing in non-core medical business, and in Philippines, where Makati Medical Centre has established new laboratories to improve medical diagnosis and treatment. The Brunei Investment Agency has also established a joint venture with Parkway Pantai, a large private healthcare provider in Asia, in managing a specialty cardiac centre. The Singapore Government has formed a partnership with Integrated Healthcare Holding in leasing capacity and services from private healthcare providers. On the other hand, Philippines has been at the forefront in terms of public private partnerships, wherein the government had opened a bidding for the construction of a high-end tertiary hospital, which would cost around US\$ 135 million.⁵¹

More partnerships and cross-ownership of health facilities across the region is expected to be a continuing trend among ASEAN countries, who are seeking to expand and develop provision of healthcare to its citizens through cooperation with the private sector, particularly in PPPs, which will be an essential and emergent tool to bridge the gap.

Tourism Sector

Travel and tourism's contribution to the combined GDP of ASEAN economy was nearly 12.4 percent in 2015, which is around 3 percentage points higher than the equivalent share in Europe, and 3.8 percentage points higher than in the Americas⁵². The World Travel & Tourism Council (WTTC) forecasts that the direct contribution of travel and tourism to ASEAN's GDP will amount to US\$ 216 billion by 2024, and also forecasts that capital investment in travel and tourism related projects will reach US\$ 96.4 billion in the next decade. International tourism receipts in the region continue to increase and in 2015, amounted to US\$ 108.3 billion.

Thailand, which is the top tourist destination in ASEAN, witnessed a strong rebound in tourism, with a 20 percent increase in visitors to 29.9 million in 2015. Myanmar has seen a huge surge in visitors, by nearly 52 percent to 4.7 million, from three million visitors in 2014. Brunei Darussalam established a new Ministry of Primary Resources and Tourism in October 2015, to encourage more visitors particularly through the promotion of ecotourism, with forecasts that tourism's share in GDP would rise to 4.7 percent by 2025, from 1.5 percent in 2014, supported by US\$ 150 million modernisation of its international airport.

⁵⁰Ernst and Young, "Take 5: Budget 2017 Malaysia"

⁵¹ASEAN Secretariat - Invest in ASEAN, "Embracing Wellness"

⁵²World Travel and Tourism Council, "Travel and Tourism Investment in ASEAN", October 2016

In the Philippines, the Entertainment City Manila project, located in Manila Bay, is nearing completion. The projected US\$ 15 billion investment includes four casino resorts, one of which was opened in 2013⁵³ and another in December 2016⁵⁴, as well as incorporating amusement parks, theatres, conference facilities and sports stadiums. Malaysia is also making long term investments in developing port and shore-line infrastructure catering for cruise ships. The Malaysia Tourism Transformation Plan envisages generating US\$ 39 billion in revenues by 2020. Indonesia is also encouraging more cruise ships to call at its ports, particularly in the relatively unspoiled eastern parts of the country, with an aim to raise the number of cruise ship visitors from around 120,000 to 600,000. Vietnam's General Department of Tourism is aiming for 8.5 million foreign visitors by 2020, part of the strategy involving encouraging cruise liner visits and developing island resorts.⁵⁵ In view of these trends, ASEAN countries see the travel and tourism industry as crucially important for their development.

Much of Southeast Asia's vivid growth in tourism has come from the increase in travel between ASEAN countries. This has been helped by rising incomes and the fact that airline schedules and route capacities have all expanded due to deregulation of the region's aviation industry. More competition has in turn helped to reduce prices and provide more direct flights between countries in the region. Another priority for ASEAN is to develop a strategic plan for ecotourism, which aims at a sustainable economic development through conservation of nature-based environment. ASEAN tourism ministers also see opportunities to attract more of the booming international cruise business. This follows the establishment of an ASEAN Cruise Work Plan in 2013, designed to showcase attractions and ports⁵⁶.

A favourable climate, proximity to large outbound markets, improving infrastructure and connectivity, and price competitiveness, make many countries within the ASEAN region highly attractive travel destinations. Foreign tourists from all over the world continue to be attracted to Southeast Asia, with number of tourist arrivals continuing to grow each year. The lure of Southeast Asia's exotic tourism potential continues to draw astute investors who recognise the vast long term opportunities in a still largely untapped sector.

⁵³Solaire Resort & Casino

⁵⁴Okada Manila

⁵⁵ASEAN Secretariat "Investing in ASEAN", 2017

⁵⁶ASEAN Secretariat "Investing in ASEAN", 2016

9. EXIM BANK - SUPPORTING DEVELOPMENTAL ENDEAVOURS IN ASEAN

The Export-Import Bank of 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, 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 Exim Bank, and thus a critical component of its strategy to promote and support two-way trade and investment flows. 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. 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. 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.

Exim Bank's Key Activities

Lines of Credit

To enhance bilateral trade and investment relations with partner countries, and as a part of its financing programmes, Exim Bank has extended several Lines of Credit (LOCs) to overseas sovereign governments or their nominated agencies, national or regional development banks, overseas financial institutions, commercial banks abroad, and other select overseas entities, to enable buyers in those countries to import developmental and infrastructure projects, equipment, goods and services from India, on medium and long term credit basis.

These LOCs offer a risk free financing option to the Indian exporting companies, while helping them penetrate new markets, enhance their export volumes in the overseas market, and demonstrate project execution capabilities. The LOCs are aimed at financing and catalysing Indian exports by way of financing key projects of national importance to the borrower countries, such as agriculture and irrigation development, development of various small and medium enterprises, upgradation of factories, development of railways and related infrastructure, projects for transmission lines and substations, rehabilitation and improvement of water supply system, among others.

Table 9.1: List of Operative LOCs extended to Countries in ASEAN (as on December 31, 2017)

Sr. No	Borrower	Amount of Credit (US\$ mn)	Products/ Projects covered
Cambodia			
1	Government of Cambodia	35.2	Stung Tsal Development Project, purchase of water pumps and construction of electric transmission line between Kratie and Stung Treng Province in Cambodia
2	Government of Cambodia	15.0	Strengthening the capacity of transmission line project between Kratie and Steung Treng
3	Government of Cambodia	15.0	completion of the Stung Tassal Water Development Project in Cambodia
Lao PDR			
4	Government of Lao PDR	33.0	(i) Paksong S/S-Jiangxai 115 KV, double circuit Transmission Line project, (ii) Nam Song 7.5 MW Hydropower project and (iii) equipment for Rural Electrification Phase 2 project
5	Government of Lao PDR	17.3	Development of irrigation schemes in Chammasack Province
6	Government of Lao PDR	37.3	(i) 230 kV double circuit transmission line from Nabon to Thabok and substations (\$ 34.68 million) and (ii) 2 hydropower projects (15 MW) in Nam Boun (\$ 37.86 million)
7	Government of Lao PDR	30.9	Construction of Storage Dams and Development of Irrigation System in 4 major province
Myanmar			
8	Myanma Foreign Trade Bank, Myanmar	56.36	Upgradation of the Yangon – Mandalay Railway System as also upgradation and maintenance of workshops and railway tracks in Myanmar
9	Myanma Foreign Trade Bank, Myanmar	7.0	Moreh-Tamu OFC link with Cor-DECT System at Yangon and Mandalay urban centers
10	Myanma Foreign Trade Bank, Myanmar	20.0	Thanlyin Refinery
11	Myanma Foreign Trade Bank, Myanmar	60.0	Railway projects to be executed by RITES Ltd.
12	Myanma Foreign Trade Bank, Myanmar	20.0	Setting up an assembly/manufacturing plant for assembly and manufacturing of Tata vehicles in Myanmar
13	Myanma Foreign Trade Bank, Myanmar	64.07	(i) Oakshitpin — Taungup 230 KV Transmission Line and Substation project; (ii) Taungup – Maei – Ann – Mann 230 kv Transmission Line and Substation project; and (iii) Maei – Kyaukpyu 230 kv Transmission Line and Substation project
14	Myanma Foreign Trade Bank, Myanmar	20.0	Upgradation of Thanbayakan Petrochemical Complex
15	Myanma Foreign Trade Bank, Myanmar	198.96	16 ongoing irrigation schemes and 2 rehabilitation schemes in the irrigation project in Myanmar
16	Myanma Foreign Trade Bank, Myanmar	86.31	Procurement of rolling stock, equipment and up-gradation of three major Railway Workshops by procurement of machinery
17	Myanma Foreign Trade Bank, Myanmar	6.20	Implementation of a Microwave Radio Link on the Rhi-Mindat route in Myanmar
Vietnam			
18	Government of Vietnam	27.0	General purpose - Contracts approved include export of textile machinery, equipment and services for hydro power projects
19	Government of Vietnam	45.0	Nam Chien Hydro Power Project.
20	Government of Vietnam	19.5	Two projects
21	Government of Vietnam	100.0	Purchase of equipment/supplies
	TOTAL	914.18	

To promote India's trade and economic relations with developing countries, the Government of India launched the Indian Development and Economic Assistance Scheme (IDEAS) – with the objective of sharing India's development experience through capacity building and skill transfer, trade, and infrastructure development, by extending concessional LOC's routed through Exim Bank, to developing partner countries, towards creating socio-economic benefits in the partner country. The LOC programme has gained considerable recognition abroad, as it enables the LOC recipient countries access to much needed large scale developmental and infrastructure projects, on concessional and deferred credit terms.

As on December 31, 2017, the total number of operative LOCs to ASEAN stood at 21 extended to 4 countries namely Cambodia, Lao PDR, Myanmar and Vietnam, for supporting projects such as electricity transmission, railway, irrigation, hydropower projects, export of machinery and equipment, and amounted to US\$ 914.18 million.

Project Exports

Under its Project Exports assistance, 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. Exim Bank has financed several Indian project exporters in the region in various sectors including, water resources development and power projects; irrigation and power projects; gas pipeline and power projects; and hydropower projects, among others. These include the provision of specific equipment related to supplies, construction and building materials, consultancy, technical know-how, technology transfer, design, and engineering. Exim Bank also supports existing or new projects, plants or processes that require additional assistance in processes such as international competitive bidding, including multilaterally funded projects in India. During 2016-17, 6 projects amounting to ₹ 1,783.8 crore (approximately US\$ 266 million) in 4 countries in ASEAN namely Malaysia Thailand, Indonesia and Vietnam, were being executed by Indian exporters with the support of Exim Bank.

Such projects executed by assistance received from Exim Bank, have contributed to the host country's developmental endeavours and have assisted in narrowing developmental gaps in such countries.

Buyer's Credit under National Export Insurance Account (NEIA)

In order to provide further impetus to project exports from India on medium or long-term basis, especially in the infrastructure sector, in April 2011, a product called Buyer's Credit under National Export Insurance Account (BC-NEIA) was introduced. NEIA is a Trust, set up by Ministry of Commerce and Industry, Government of India, and administered by ECGC. Under this programme, Exim Bank facilitates project exports from India by way of extending credit facility to overseas sovereign governments and government-owned entities for import of goods and services from India on deferred credit terms. Indian exporters can obtain payment of eligible value from Exim Bank, without recourse to them, against negotiation of shipping documents. As on date, a positive list of 84 countries (including 6 ASEAN countries) has been identified by ECGC for which Indian exporters can avail Buyer's Credit under NEIA.

Overseas Investment Finance

Exim Bank supports Indian companies in their endeavour to globalise their operations, through overseas joint ventures (JVs) and wholly owned subsidiaries (WOS). Such support includes loans and guarantees, equity finance and in select cases direct participation in equity along with Indian promoters to set up such ventures overseas. These ventures serve to promote value addition, as also contribute to capacity building and capacity creation in host countries. As on March 31, 2017, Exim Bank through its overseas investment finance programme has supported 74 such ventures, set up by Indian companies in 6 countries in ASEAN namely, Malaysia, Myanmar, Indonesia, Singapore, Thailand and Vietnam, with an aggregate sanction amount of ₹ 7,953.11 crore (approximately US\$ 1,245.2 million)

Asian Exim Banks Forum

With a view to enhance cooperation and forge a stronger linkage among its member institutions, the Asian Exim Bank's Forum (AEBF), a grouping of Asian Exim Banks, was conceived and initiated by Exim Bank of India in 1996. Since 1996, the Forum meets every year at an Annual event hosted by Export Credit Agencies' (ECA), in rotation. Members comprise ECAs from 5 ASEAN countries namely Indonesia, Malaysia, Philippines, Thailand, and Vietnam, along with Australia, China, India, Japan and Korea. Asian Development Bank is a Permanent Observer. The task of Asian Exim Bank Forum is to enhance cooperation and strengthen ties among its member institutions, thereby fostering a long-term relationship with the Asian ECA community. The Annual meetings serve as a forum for discussing a wide range of issues focused on fostering common understanding as well as exchanging and sharing information. Together, the endeavour is to meet the challenges faced as an export credit agency in Asia and explore possible areas for further regional cooperation.

Research Studies

Exim Bank, besides offering various financial products to support Indian exporters and entrepreneurs, also carries out in-depth economic research on areas related to bilateral trade and investment, sector/ product/ country and regional studies, as also policy issues related to the external sector with a view to enhancing competitiveness of Indian exporters. Some of the recent publications of Exim Bank focusing on select ASEAN member countries include:

- India's Engagements with CLMV: Gateway to ASEAN Markets
- Act East: Enhancing India's Engagements with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV);
- Value Addition Chains and Trade in Manufactured Commodities in Southeast Asia;
- India's Trade and Investment Relations with Cambodia, Lao PDR, Myanmar, Vietnam (CLMV): Enhancing Economic Cooperation;
- Potential for Enhancing India's Trade with Myanmar: A Brief Analysis;
- ASEAN Countries: A Study of India's Trade and Investment Potential; and
- BIMSTEC Initiative: A Study of India's Trade and Investment Potential with Select Asian Countries.

10. Observations and the Way Forward

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 up-gradation 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. There are, in total, 30 Dialogue Mechanisms between India and ASEAN, cutting across various sectors. India and ASEAN are actively engaged in negotiations towards a Regional Comprehensive Economic Partnership, which as highlighted earlier, when completed, is expected to be the largest regional trading arrangement, accounting for nearly 40 percent of the world trade⁵⁷.

While a few economies in ASEAN have witnessed moderation in terms of growth and merchandise exports, most economies exhibit a positive pickup in the immediate forecast period of 2017 and 2018. Underlying these welcome trends is also the increasing resilience and faster recovery of Asian countries such as India and especially member nations of ASEAN from the impact of global slowdown.

With the robust performance of select Asian economies witnessed in recent years, intra-Asian trade and cooperation has assumed increasing importance as a driver of regional and global growth. The fact that intra-Asian exports have increased at a much faster rate as compared to Asia's global exports over the last decade, further attests to the increasing cooperation among Asian countries and the burgeoning trade and investment opportunities among them. Intra-Asian cooperation offers viable opportunities for countries in Asia, in their individual and collective pursuit of sustained economic growth and sustainable development.

India-ASEAN cooperation thus, holds a promise for the future to transform into a sound economic partnership in the form of a robust trade bloc. The influence of commerce and connectivity remains vital to enhance bilateral ties. Greater flow of goods, services, skilled workers and investments are expected to only buttress this relationship further. Some of the key focus areas and imperatives for enhancing India's engagements with ASEAN are highlighted below:

i. Strengthening Trade Relations

An area of concern that needs attention is the fact, observed in the previous chapters, that over the past five years, India's trade with ASEAN has witnessed moderation from US\$ 75 bn in 2012 to US\$ 64.6 bn in 2016, with both India's exports and imports slowing down over the period. The slowdown in India's exports to ASEAN, and thereby overall trade, has been especially consistent since 2013. India stood as ASEAN's 11th largest trading partner in the year 2016. 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

⁵⁷Ministry of External Affairs, Government of India

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.

Some of the key issues critical for expansion of trade between India and the ASEAN region that need to be addressed include, among others⁵⁸:

- (a) harmonising and simplifying the customs procedures thereby reducing the time and cost involved in transit;
- (b) better and synchronized transportation regulations, transit rules and safety standards;
- (c) agreements facilitating improved integrated road-rail-maritime transport network amongst India and ASEAN nations; and
- (d) information sharing on existing opportunities with prospective exporters.

ii. Integration into Regional Value Chains

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. However, the regional value chains (RVC) in Cambodia, Laos, Myanmar and Vietnam (CLMV) are yet to be developed. Moreover, India is almost left out of any significant regional value chains in its neighbourhood. This creates opportunities for India's economic integration through RVCs in ASEAN and especially developing such RVCs in the CLMV region.

Regional value chains in different sectors act as drivers for regional economic integration, especially given the experiences in the South-east and East Asian regions. These are accomplished through private sector-driven flows of trade in goods, trade in services, FDI and movement of natural persons facilitated by conducive policy regimes. Such endeavours unleash a dynamic process that creates positive developmental pressures on forging better infrastructural linkages⁵⁹. Regional value chains entail relocation of production bases at different stages of production and manufacturing in different countries that are linked with services. The net outcome of such relocation is in terms of efficiency-seeking industrial restructuring.

For this to be achieved, there is a need to align India's commercial interests with those in ASEAN countries and especially the CLMV region along with an integrated strategic policy driven approach. Building regional value chains, investing in manufacturing hubs and expanding cooperation in cutting-edge technologies will mutually benefit both the regions. Initiatives similar to Project Development Fund, which is building Indian economic projects in CLMV would sustain economic gains.

iii. 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

⁵⁸ ASSOCHAM, "India-ASEAN Trade and Investment Relations: Opportunities and Challenges", July 2016

⁵⁹ India's Strategy for Economic Integration with CLMV, Department of Commerce Ministry of Commerce and Industry Government of India, 2015

as a priority area by India and ASEAN. North-eastern India could be a land bridge with ASEAN countries, for strengthening partnership through enhanced trade, tourism, and people-to-people contacts.

Some of the key focus areas in this regard are highlighted below⁶⁰.

- (a) There is a need to fast track the on-going projects such as Kaladan Multi-Modal Transit project and the 1360 kms India-Myanmar-Thailand Trilateral Highway, which when completed, will provide seamless connectivity between Moreh in India to Mae Sot in Thailand.
- (b) Mobilising financial resources to support connectivity projects for both cross-border and backend linkages is a major challenge. Although setting-up of Project Development Fund (PDF) in the CLMV has been an important beginning to build border connectivity, attracting private sector investments in connectivity corridor such as Mekong-India Economic Corridor by setting up SEZs should also be considered.

iv. Cooperation in SME Sector in the CLMV

Small and medium enterprises (SME) form the backbone of CLMV economies, meeting the basic needs of goods and services as well as trade, contributing towards improving the standard of living and helping in alleviation of poverty. SMEs account for over 90 per cent of enterprises in the region, thereby contributing to a major share of the region's output. Though SMEs play a vital role in economic development of CLMV countries, they are constrained by a number of factors like lack of accessibility to modern technology, limited access to international markets, lack of management skills and training, and lack of finance.

Towards developing entrepreneurship and human capability, India could share its expertise and experience with these countries, particularly in the SME sector wherein India has developed successful SME clusters. An important element in this direction would be for delegations from these countries to visit India to study success factors of SME clusters in India, and developing similar clusters in their countries based on resource and skill endowments. In addition, the CLMV countries could tie up with Indian institutions such as Entrepreneurship Development Institute of India (EDPI), Ahmedabad and National Small Industries Cooperation Ltd. (NSIC), New Delhi towards entrepreneurship development and human capability creation. Further, Indian institutions could also share their expertise in, fields of institutional strengthening, export development and export capability creation in the region, in the form of technical assistance and sharing of expertise through site visits. Exim Bank has extended several LOCs to various countries for the development of their SME sectors. Exim Bank through its various financial products has extended support to Indian SMEs in their growth endeavours and helped them in their internationalisation efforts. Such learnings could also be shared with partner countries in ASEAN.

v. Cooperation in ITES

The global and regional markets for IT-BPO services are huge. ASEAN, being a net importer of telecommunication, computer and information, can collaborate with India to expand and deepen its IT services sector. India can share its expertise with the ASEAN countries, particularly CLMV, which is still on the path of computerization, and even introduce necessary vocational course to support the initiative. This partnership will serve the ASEAN

⁶⁰NITI Ayog, "India-ASEAN @ 25", August 2017

Economic Community (AEC) and the larger ASEAN-India markets for services. Indian IT firms could also focus on investing in subsidiaries and joint ventures in the areas of e-governance, financial services and e-education. Indian companies could also share their expertise in providing software programmes and services for banks and financial institutions for banks in the region. For instance, Indian IT training companies which already have presence in other ASEAN countries, could expand their network of training centres in other countries including CLMV countries. Designing specialized e-learning courses on the web for providing technological assistance, manufacturing process know-how, troubleshooting and other technical areas also present opportunities. Such initiatives would help industry and commerce, promote education in remote areas, create employment opportunities and promote healthcare to remote areas in the region, thereby contributing to overall development of nations in the region.

vi. Developing Linkages with Investment Promotion Agencies / Chambers of Commerce

Besides streamlining their investment regimes, many countries in the region have set up specialized investment promotion agencies/Chambers of Commerce to promote and facilitate inflow of foreign investment into these countries, while also serving as one-stop-shop for investment related activities. In light of the key role of these institutions, building closer cooperation and linkages with these investment promotion agencies would serve to enhance access to information about investment opportunities in the region.

An important element of this strategy to boost bilateral trade and investment relations would be to effectively disseminate relevant information relating to the identified potential markets, products and sectors to exporters and investors in India and ASEAN. Such relationship would serve to enhance knowledge about potential areas of investment, upcoming projects in different sectors, prospective investment partners, as also procedures, rules and regulations required for venturing into specific sectors in these countries and incentives offered to investors. Further, investment promotional events with select investment promotion agencies would foster increased interaction between potential investors and concerned agencies in potential sectors in target countries in the region.

A national level industry association/ trade chamber could be identified which could undertake various trade promoting activities such as organizing Business-to-Government (B2G) and Business-to-Business (B2B) delegation visits relating to identified potential sectors; organizing business fairs in these countries to showcase the competencies of enterprises in India and ASEAN and to capture market opportunities existing in these countries. Besides, an interactive portal hyperlinked with major industry and trade associations and chambers in the region would be helpful in providing necessary information and advisory services on potential export and investment markets. It could also maintain a readymade database accessible to all the potential investors and exporters in both India and the ASEAN region. Training by way of specialized courses on the web for providing technical assistance and other technical advices in sectors relevant to ASEAN countries can be an important step towards enhancing bilateral trade and investment.

vii. Other Areas of Cooperation

Going forward, there are also immense opportunities for enhancing ASEAN-India cooperation in other important areas such as:

- (a) strengthening maritime security and ensuring freedom of navigation;
- (b) Coordinating responses to natural disasters;
- (c) tackling cross-border development challenges of climate change; and
- (d) increasing people-to-people linkages.

Make in India, infrastructure development, development of smart cities, innovation and skill set enhancement, cooperation in space, science and technology also provide opportunities for forging closer partnerships.

Closer economic and trade linkages among the economies of Asia could prove to be a mutually rewarding association. Export-Import Bank of India, ever since its inception in 1982, has played a catalytic role in effecting India's increasing integration with the global economy by promoting, financing and facilitating India's international trade and investment, with particular reference to the countries in Asia, including ASEAN in particular. The Asian Exim Banks Forum set up in 1996 is a point in case and a positive initiative in this direction 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.



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