

# Territorial NEWSLETTER

## ASEAN + 5

**EPCINDIA**  
ENGINEERING THE FUTURE

Vaniya Bhavan (1st Floor)  
1/1 Wood Street,  
Kolkata - 700016  
[www.eepcindia.org](http://www.eepcindia.org)

The Association of Southeast Asian Nations + China, Japan, Korea, Australia and New Zealand

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### Chairman's Pen



THE REPUBLIC DAY parade is generally seen as an exhibition of the country's might, showcasing all the military technology and power at its disposal. But there's also a sophisticated diplomatic exercise that happens largely behind the scenes every year in the invitation of a global leader as chief guest. This year, that exercise had assumed the epic proportions of the parade itself, with the government inviting not one but 10 heads of state to attend. By gathering political leadership of 10 ASEAN countries, India aims to project itself as powerful and trusted ally of the ASEAN, where strategic partnership, trade and connectivity becomes the backbone.

In this issue of newsletter we highlight the MSMEs and their role in boosting the India-ASEAN trade. The MSMEs are a vital aspect of both Indian as well as the ASEAN economy, contributing significantly to the manufacturing sector of both India and the ASEAN bloc.

We are hopeful that the information provided in the newsletter will be useful for our readers.

### Message from Chairman, Committee on Trade with ASEAN countries



**P K Shah**

The MSME sector is majorly involved in manufacturing of High volume and Low value products, catering to the supply of parts, components & spares for manufacturing industries in India. Due to the large manufacturing base the MSME sector is also the major employment generator in the Indian economy. Therefore the development of engineering MSME sector has multidimensional aspects.

The upcoming projects like the India-Myanmar-Thailand Trilateral Highway, the Kaladan Multimodal Transit Transport Project and alike are expected to generate regional value chains which are vital for the MSMEs of India and the ASEAN countries to grow and prosper.

I hope this newsletter will be insightful for our readers and they will enjoy reading it.

Territorial  
NEWSLETTER – ASEAN

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## Basic Facts

Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) between ten member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand)

Prospective RCEP member states account for a population of 3.4 billion people with a total Gross Domestic Product (GDP, PPP) of \$ 49.5 trillion, approximately 39 percent of the world's GDP.

### Scope of negotiations:

RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.

The RCEP will have broader and deeper engagement with significant improvement over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries.

## India-ASEAN Summit: Building alliance for competitive SMEs

India had invited leaders of all 10 countries of Association of South East Asian Nations (ASEAN) to attend its Republic Day celebrations on January 26. This was the first time that India had hosted more than one head of state or government at the R-Day event. Leaders from Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam were there to not only celebrate 70 years of India's independence but also 50 years of ASEAN's inception and 25 years of India's partnership with the bloc.

With this, the ASEAN—the central pillar of India's Act East Policy—is back in the limelight. Ever since the launch of the Look East Policy in 1991, the bilateral relations have travelled a long distance, crossing several milestones. The two sides established a Sectoral Dialogue Partnership in 1992, which was elevated to full-fledged dialogue partnership in 1996, and to a strategic partnership in 2012—culminating in the establishment of an ASEAN-India Centre and ASEAN-India Vision Statement. In the same year (1996), India became a member of ASEAN Regional Forum, sharing the high table with US, Russia, Australia and Japan, among others. ASEAN and India have about 30 platforms for engagement, including an annual leaders' summit and ministerial dialogues. In 2018, Prime Minister Narendra Modi will address the security dialogue, Shangri-La—the first for an Indian PM. After 15 years of summit-level meetings, five years of strategic partnership, and with the Narendra Modi government upgrading the Look East to Act East policy, the India-ASEAN bonhomie has broadened to accommodate political, strategic, security and defence ties, in addition to the economic realm. The primary focus of the engagement, however, continues to be the furtherance of economic and commercial ties.

The ASEAN-India economic integration process gathered impetus after the creation of the ASEAN-India free trade area in 2010, followed by the implementation of the India-ASEAN agreement on services and investment in 2015. ASEAN is India's fourth largest trading partner, and India is the seventh largest trading partner of the bloc. However, the bilateral trade and investment ties are still way below their true potential. The bilateral trade stood at \$70 billion—only 2.6% of ASEAN's total trade in 2016. This is a long way off the trade target of \$200 billion with ASEAN countries by 2022. Besides, the balance of trade has always been in favour of ASEAN

member countries. Total exports to ASEAN in 2016-17 stood at \$31.07 billion compared to the imports at \$40.63 billion, creating an adverse trade balance of \$9.56 billion.

In terms of investment, while the Indian FDI into ASEAN nations, standing at over \$31 billion, accounts for 22% of its total outbound FDI, it is far less in comparison to the US, the EU and Japan. Over the same time, FDI inflows in India from ASEAN crossed \$25 billion. India receives nearly 99% of the total FDI inflows from the region from Singapore alone—with the Comprehensive Economic Cooperation Agreement driving the economic partnership—while the other major Southeast Asian economies being Malaysia, Indonesia, and Thailand accounting for less than 1%.

### **Factors obstructing FDI inflows and SMEs collaboration in the region**

Several obstacles exist against the bilateral trade and investment today. Challenges in establishing a supply chain, poor infrastructure and bad maritime and air connectivity between India and ASEAN countries have served as obstacles to the trade and investment relations. Besides, all the countries of the region have differing levels of socio-economic development—posing as a complex challenge, especially to the SMEs since they have to adjust with a new set of supply-chain strategies to the varying regulatory requirements in every country. Technological upgrading is pivotal to enabling the SMEs to be more competitive in the global market. That requires big investments in the form of physical equipment and human resources to compete with foreign companies and meeting the requirements of the new customers in foreign markets. The SME sector in India is dependent on foreign technologies in a huge way because they lack an in-house R&D, owing to their smaller setup. Here again, ineffective physical connectivity, communication infrastructure and bureaucratic costs involved in complex tax and duty structures, licensing, and other business activities impeded the flow of FDI into the SME sector until last year. Initiatives like the 'Make in India' and 100% FDI in retail are facilitating foreign investment in the SME sector, which will also help improve the supply-chain efficiencies of this sector.

Moreover, the CLVT countries—Cambodia, Laos, Vietnam and Thailand—are emerging as the manufacturing hotspots, with China increasingly outsourcing its production to these countries. Last year, Chinese companies signed outsourcing deals on construction, engineering and telecommunications projects worth \$ 415 million with countries along the Belt and Road project, mainly ASEAN members. The CLVT countries, in particular, stand to gain from this industrial capacity cooperation as their manufacturing remains at a low-level. Further, Chinese e-commerce retailers like Sunning have committed to promoting ASEAN SMEs. Thus, the dominant Chinese footprint in the region makes the competition tougher for Indian SMEs.

### **Recent initiatives**

In the commemorative summit India has another chance to not only voice its concerns to the bloc but also project India as a lucrative investment destination for the ASEAN countries. Recent major developments on the infrastructure front—improving road and rail connectivity, building international airports and seaports, while earmarking another \$377 billion for infrastructure developments in the next three years— are an encouraging sign for foreign companies and investors to do business in India. Seamless transport links are key to India-ASEAN trade relations. To allow smooth movement of goods and services, the Indian government is currently undertaking some big-ticket projects. India has recently proposed a credit line of \$1 billion to promote physical and digital connectivity with ASEAN through road, air and sea projects, apart from setting up development fund of \$77 million for the development of manufacturing hubs in Cambodia, Laos, Myanmar and Vietnam.

The India-Myanmar-Thailand Trilateral Highway is already under construction, and the Indian government plans to extend it to Laos and Vietnam under the Dawei project. Additionally, the action plan for implementation of the BBIN Motor Vehicles Agreement, 2016, has been initiated. Myanmar is a member of both the BBIN as well as the ASEAN. The Kaladan Multimodal Transit Transport Project is another initiative linking the Kolkata with Myanmar's Sittwe port, facilitating the movement of cargo across the India-Myanmar border through the sea route—and later extending to other ASEAN countries like Laos, Cambodia, and Vietnam.

With its largely skilled-yet-unexplored demographic dividend, the logistics sector and the supply-chain environment can be developed to a world-class level. Since regional value chains are a great pathway to connect to the global value chain, there's huge potential to create value chains between the manufacturers of SMEs in India and those in the less developed countries of ASEAN bloc, like Laos, Vietnam, Cambodia and Myanmar, considering that these countries are the beneficiaries of generalised system of preferences in the US and the EU. So, if the Indian manufacturers set up business units in these countries, they are bound to get the same benefits while exporting to the US and EU markets.

SMEs are a vital aspect of both Indian as well as the ASEAN economy, contributing nearly 45% to the Indian manufacturing. The sector contributes even more significantly to the collective GDP of the ASEAN bloc, with the numbers ranging between 30-58%. So, while the jury is still out on the overall impact of the India ASEAN FTA, increasing SME cross-border activities across India and ASEAN by building a regional network, greater integration in the areas of regional trade agreements and digital solutions will, thus, help in boosting mutual economic growth and development. The upcoming India-ASEAN Summit is further expected to facilitate the process to bring about faster economic development in the region.

## Trade Analysis & Statistics

### Trade Analysis & Statistics

India's total engineering exports to ASEAN+5 country wise during April-January of 2018 stood at US\$ 13.4 billion. Some major highlights of the cumulative engineering exports from India to ASEAN+5 during April-January 2018 are given below:

- ❖ During April-January 2018, India's engineering exports to ASEAN+5 stood at US \$ 13370.0 million which is 21.6% of the total global engineering exports of India during the same period.
- ❖ India's cumulative engineering exports to ASEAN+5 during this period have also increased by 23.5%.
- ❖ China topped the list once again for Indian cumulative engineering exports. Major engineering products exported to the country include Copper and products, Iron and Steel, Zinc and products, Electrical machinery & equipments etc and IC Engines and parts. It recorded huge positive growth of almost 90% in imports from India during April-January 2018 compared to April-January 2017 among the fifteen countries.
- ❖ Myanmar once again recorded second highest growth of almost 82% in April-January 2018 compared to April-January 2017 among the fifteen countries.

Top 5 nations which had the highest demand for Indian engineering products during April-January of 2017-18 in absolute values include:

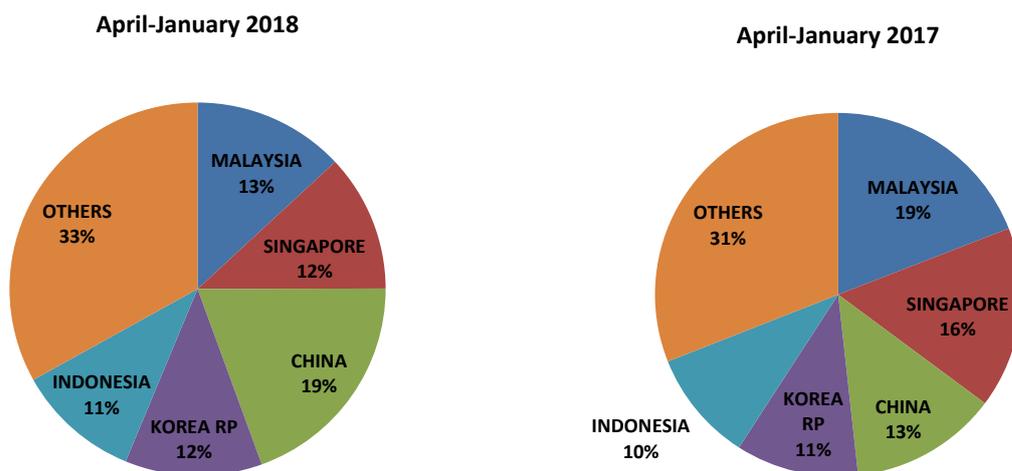
Values in US\$ million

COUNTRY	APRIL-JANUARY 2017	APRIL- JANUARY 2018	Growth (%)
CHINA	1414.4	2607.6	84.4
MALAYSIA	2064.3	1746.1	-15.4
SINGAPORE	1747.5	1589.5	-9.0
KOREA RP	1174.3	1575.6	34.2
INDONESIA	1073.0	1427.5	33.0

Source: DGCI&S, Government of India

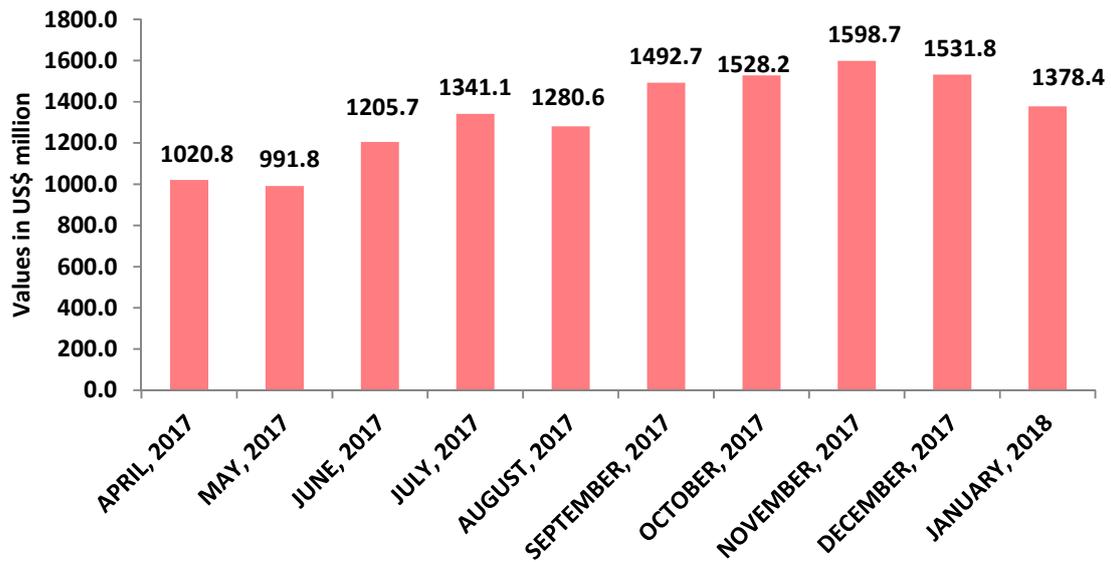
A comparison of top 5 nations which had the highest demand for Indian engineering products during April-January 2017 and its subsequent change in April-January 2018 is shown in the pie chart below:

**Fig 1: Change in Engineering Export among the top 5 ASEAN+5 countries (April-January 2017 viz-a-viz April- January 2018)**



Source: DGCI&S, Government of India

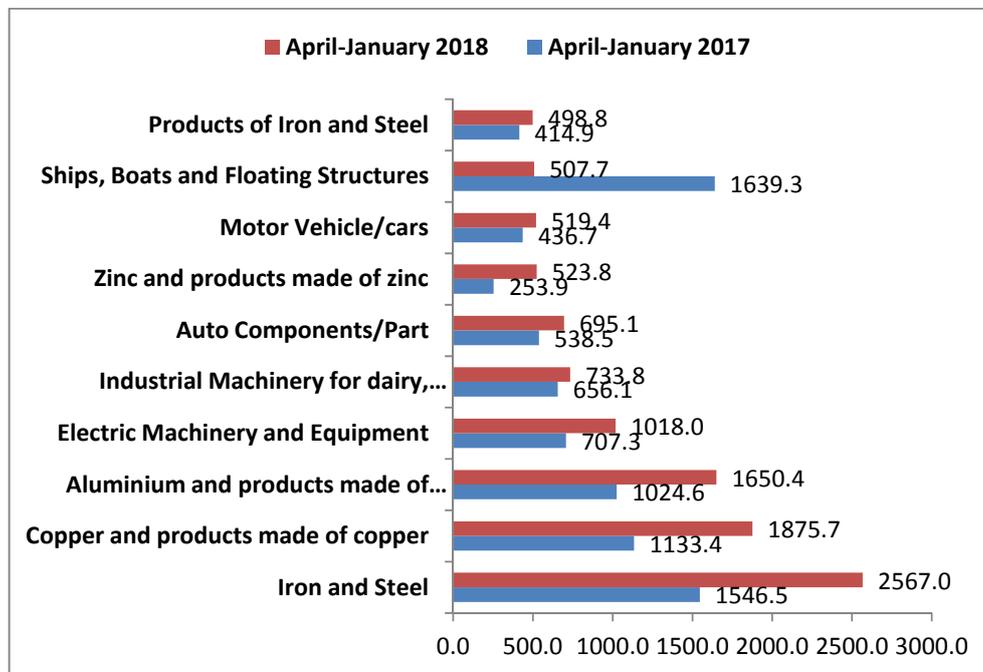
**Fig 2: Trend in Total Engineering Export in ASEAN +5 during April-January 2018 (Month wise)**



Source: DGCI&S, Government of India

Top 10 engineering panels exported to ASEAN+5 during April-January2018 viz-a-viz April- January2017 are provided in bar diagram.

Fig 2: Top 10 engineering panels exported to ASEAN+5 in April- January2018 viz-a-viz April- January 2017



Source: DGCI&S, Government of India

### ❖ EAM Sushma Swaraj in Thailand for the first leg of her 3-nation visit

According to a statement issued by the External Affairs Ministry, Sushma Swaraj will visit Thailand on January 4-5 during the course of which she will hold a meeting with Thai Minister of Foreign Affairs Don Pramudwinai. "All aspects of bilateral relations with Thailand will be discussed with particular focus on political, defence and economic ties and on further enhancing India's engagement with ASEAN (Association of Southeast Asian Nations) countries," the statement said, adding that Thailand would assume the role of coordinator country for India-ASEAN relations in the middle of this year.

During her Indonesia visit from January 5-6, Sushma Swaraj will co-chair the fifth meeting of the India-Indonesia Joint Commission with her Indonesian counterpart Retno Marsudi.

The Ministers will also inaugurate the second meeting of the ASEAN-India Network of Think Tanks. She will also call on Indonesian President Joko Widodo and have other official engagements, including an interaction with representatives of the Indian community.

Read more: <http://www.ddinews.gov.in/sushma-swaraj-three-nation-visit-january-2018>

### ❖ Singapore Pravasi Bharatiya Divas to Mark Contribution of Indian Diaspora in ASEAN Countries

The annual Asean-India Pravasi Bharatiya Divas in Singapore is set to begin from Jan. 6. The two-day conference, which will be attended by top leaders and businessmen from Singapore and India, will discuss the contribution of the Indian diaspora community in Southeast Asia.

About 2,500 participants from across the world will attend this year's edition, the theme of which is "Ancient Route, New Journey: Diaspora in the Dynamic Asean-India Partnership." External Affairs Minister Sushma Swaraj will inaugurate the event, to be attended, among others, by Singapore's Deputy Prime Minister Teo Chee Hean, Minister for Foreign Affairs Vivian Balakrishnan and Minister for Trade and Industry S Iswaran. Chandrajit Banerjee, the director general of the Confederation of Indian Industry (CII), is among the top business leaders scheduled to attend the conference. Swaraj is set to begin her year with a three-nation Southeast Asia tour, including, besides Singapore, Thailand and Indonesia.

Read more: <https://littleindia.com/singapore-pravasi-bharatiya-divas-mark-contribution-indian-diaspora-asean-countries/>

### ❖ India, SE Asia nations host investor meet in bid to ramp up economic ties

Ahead of the India-Association of Southeast Asian Nations (Asean) commemorative summit in New Delhi this month, India and its Southeast Asia partners are hosting a rare meet designed to link up entrepreneurs, investors and start-ups in a bid to ramp up economic cooperation.

The two-day India-Singapore/ASEAN Entrepreneurship Bridge or InSprenneur got underway in Singapore on Friday and will coincide with the India-ASEAN Pravasi Bharatiya Diwas—a gathering that celebrates linkages between people of Indian Origin in Southeast Asia and India. The India-ASEAN Pravasi Bharatiya Diwas will be addressed by Indian foreign minister Sushma Swaraj on Sunday.

Both the InSprenuer and the India-ASEAN Pravasi Bharatiya Diwas are highlights of the year-long commemoration of the 25 years of ASEAN-India partnership, which will culminate in the ASEAN-India Commemorative Summit in New Delhi on 25 January.

Read more: <https://www.livemint.com/Politics/MJMihj5Sag4njxX88n0DmM/India-SE-Asia-nations-host-investor-meet-in-bid-to-ramp-up.html>

#### ❖ **Great opportunities for collaboration between India and Asean, says Iswaran**

There are great opportunities for collaboration between India and Asean nations, including in the areas of infrastructure, innovation and start-ups and the digital economy.

Joining forces in such promising sectors will help build greater business links between the two economies, said Minister for Trade and Industry (Industry) S. Iswaran on Saturday (Jan 6).

Mr Iswaran told a panel discussion at the Marina Bay Sands that India is prioritising the development of smart cities, which is an area that "Asean businessmen and companies can participate in".

He cited the Amaravati project, the upcoming capital city of Andhra Pradesh state, where planners from Singapore helped devise the master plan, as "an example of what we can do together".

Read more: <http://www.straitstimes.com/singapore/great-opportunities-for-collaboration-between-india-and-asean-says-iswaran>

#### ❖ **India, Indonesia discuss bilateral ties**

India and Indonesia discussed bilateral ties across multiple sectors during the fifth Joint Commission meeting co-chaired by External Affairs Minister Sushma Swaraj and Indonesian Foreign Minister Retno Marsudi here on Friday.

External Affairs Ministry spokesperson Raveesh Kumar tweeted that both the leaders "reviewed trade, energy ties, defence cooperation and people-to-people links".

Earlier in the day, Sushma Swaraj arrived here from Thailand on the second leg of her three-nation tour that will also see her going to Singapore.

Read more: [http://www.business-standard.com/article/news-ians/india-indonesia-discuss-bilateral-ties-118010500764\\_1.html](http://www.business-standard.com/article/news-ians/india-indonesia-discuss-bilateral-ties-118010500764_1.html)

#### ❖ **Swaraj calls for deeper economic ties with ASEAN**

India wants to evolve a regional architecture based on the twin principles of shared security and shared prosperity, External Affairs Minister Sushma Swaraj said today as she called for a deeper economic integration with the "dynamic" ASEAN region.

Swaraj, who inaugurated the 5th Round Table of Association of Southeast Asian Nations (ASEAN) India Network of Think Tanks here, emphasised on enhancing maritime security, trade and investment, education and cultural heritage among the grouping.

"These are important markers in our engagement with South East Asia, in enhancing our strategic ties with ASEAN across 3 Cs. These 3Cs are commerce, connectivity and culture," she said.

Read more: <http://www.businessworld.in/article/Swaraj-calls-for-deeper-economic-ties-with-ASEAN/08-01-2018-136621/>

#### ❖ **NHAI issues EPC contract for highway project linking India, Myanmar, Thailand**

Four months after identifying the successful bidder, the National Highways Authority of India (NHAI) issued the letter of award to Punj Lloyd and Varaha Infra joint venture last week for the construction of a two-lane highway in the Kalewa-Yargi section of the proposed India-Myanmar-Thailand (IMT) Trilateral Highway.

The highway will connect India with Thailand through Myanmar, the only ASEAN country that shares land border with India. With \$70-billion trade, ASEAN is India's fourth largest trading partner.

Estimated cost

The 120-km-long road section is estimated to cost ₹1,177 crore. India has already built the 132-km section, referred to as Friendship Highway, from the border town of Tamu to Kalewa. A separate contract is underway for upgradation of 69 bridges along the Tamu-Kalewa stretch.

Read more: <https://www.thehindubusinessline.com/economy/logistics/nhai-issues-epc-contract-for-highway-project-linking-india-myanmar-thailand/article10020435.ece>

#### ❖ **Indian scholar talks about Vietnam-India relations**

Intensity and momentum of Vietnam-India bilateral engagement have created win-win situation for both countries, according to Dr. Faisal Ahmed, Associate Professor and Chairman of International Business Area at FORE School of Management, New Delhi.

In a recent interview granted to the Vietnam News Agency, the scholar noted that looking closely at the intensity of India-Vietnam engagements in the near past, it can be said that it truly exemplifies a pro-active approach in managing bilateral relations.

He said after the two countries agreed to upgrade their level of engagement from strategic partners to a "comprehensive strategic partnership" in 2016, India's exports to Vietnam in 2016-17 increased by 28.87 percent over the previous year. And interestingly, Vietnam's exports to India also increased by 29.69 percent, while the bilateral trade stood at 10.11 billion USD, which was again a 29.14 percent increase from the previous year, Dr. Faisal Ahmed said, stressing that all those statistics clearly revealed that intensity and momentum of the bilateral engagement had created win-win situation for both countries

Read more: <https://en.vietnamplus.vn/indian-scholar-talks-about-vietnamindia-relations/125812.vnp>

### ❖ **PM Modi holds talks with counterparts from Malaysia, Indonesia, Laos**

Prime Minister Narendra Modi on Friday held bilateral talks with his Malaysian counterpart Nazib Razak, focusing on ways to enhance counter-terror cooperation, contain radicalisation and boost ties in areas of defence, trade and investment.

Secretary (East) in the external affairs ministry Preeti Saran said the two leaders also deliberated on enhancing cooperation in the infrastructure sector.

They deliberated on counter-terror cooperation, containing radicalisation and ways to enhance defence cooperation, Saran told a media briefing.

Razak was among 10 Asean leaders who participated at the India-Asean Commemorative summit on Thursday and watched the Republic Day celebrations at Rajpath on Friday.

Read more: <https://timesofindia.indiatimes.com/india/pm-modi-holds-talks-with-counterparts-from-malaysia-indonesia-laos/articleshow/62665700.cms>

### ❖ **Indo-Asean trade rises 10% to \$72bn in FY17, but is long way off potential**

Trade and economic ties between India and the 10-nation Asean+ (Association of Southeast Asian nations) have enormous potential but needs more work to realise the gains. Two-way trade between India and Asean+ moved up to \$71.6 billion in 2016-17 from \$65.1 billion in 2015-16 (over 10% increase).

In contrast, two-way trade between China and Asean stood at \$452.31 billion in 2016 while its exports to Asean totalled \$256 billion, according to industry data. "Full trade potential and product integration to be realised, facilitation of business to business connections, information flow, harmonisation and mutual recognition of standards as well as removal of non-tariff barriers are crucial," said a paper prepared by industry lobby group CII.

Read more: <https://timesofindia.indiatimes.com/business/india-business/indo-asean-trade-rises-10-to-72bn-in-fy17-but-is-long-way-off-potential/articleshow/62657555.cms>

### ❖ **Full implementation of India, Asean FTA to boost trade**

Full implementation of the free trade agreement (FTA) in goods between India and the Asean bloc will help boost trade between the two regions, Minister of State for Commerce and Industry C R Chaudhary said today.

He said however that connectivity and infrastructure are major challenges to further push the trade ties between India and the Association of South East Asian Nations (Asean).

India and the 10-nation bloc signed the FTA in goods in 2009. Under the pact, two trading partners set timelines for eliminating duties on maximum number of goods traded between the two regions.

Read more: <https://economictimes.indiatimes.com/news/economy/foreign-trade/full-implementation-of-india-asean-fta-to-boost-trade/articleshow/62618818.cms>

### ❖ 'Soft connectivity' key to India-ASEAN ties: Thailand's Ambassador to India Chutintorn Gongsakdi

As New Delhi continues to push for better connectivity with Southeast Asia through the northeast under its Act East Policy, Thailand's Ambassador to India Chutintorn Gongsakdi has said that "soft connectivity" is the key to India-ASEAN ties. Commenting on the India-Myanmar-Thailand Trilateral Highway, work on which is under way, Chutintorn said that construction on the Thailand side has been completed and "we are waiting for India to finish road construction in Myanmar". "But what is more important is that when the road is finished, we have to be prepared on the customs, immigration and quarantine aspects because we cannot have roads and then people getting stuck at the border," he told IANS in an exclusive interview on the sidelines of a Thai food festival in the capital. "So, we are interested in what we call the 'soft connectivity', the software for the people, the rules and regulations. Now we are negotiating the motor vehicle agreement."

According to the Indian External Affairs Ministry, the highway connecting Moreh in the northeastern state of Manipur with Mae Sot in Thailand is set to be completed in 2019. Explaining why customs, immigration and quarantine comprise the difficult part of connectivity, Chutintorn said: "When we had a road going up to China through Laos, at one of the summits, the Prime Minister of Laos said that it cannot be that it takes five hours to get from one country to the next and then you have another five hours of customs, immigration and quarantine. So, we have to make sure that this does not happen. It has to be seamless and smooth."

Read more: <http://www.financialexpress.com/india-news/soft-connectivity-key-to-india-asean-ties-thailands-ambassador-to-india-chutintorn-gongsakdi/1024003/>

### ❖ Najib's fourth official visit to India is to strengthen our ties

IT will be an old familiar feeling for Datuk Seri Najib Tun Razak when he arrives in the Indian capital on Wednesday.

This marks his fourth official visit to India since taking office in 2009, coming on the heels of his high-profile appearances in Chennai and New Delhi less than a year ago.

Last April, Indian and Malaysian business leaders signed one of the biggest trade deals in Malaysian history – US\$36bil (RM158.68bil).

The amount was even higher than the RM144bil worth of deals signed by Malaysia in China just four months earlier.

Read more: <https://www.thestar.com.my/news/nation/2018/01/22/all-out-to-cement-close-relationship-najibs-fourth-official-visit-to-india-is-to-strengthen-our-ties/>

#### **EEPC India ASEAN+5 Territorial Newsletter**

Contact: Priyanka Chakraborty

Email: [pchakraborty@eepcindia.net](mailto:pchakraborty@eepcindia.net)

Phone no: 033-40120362