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Growing ASEAN-India Ties: Economic Opportunities for Singapore in India

The Association of Southeast Asian Nations (ASEAN)-India ties mark their 25th anniversary in 2017. India's transformation from its 'Look East' policy to an 'Act East' policy has resulted in the country becoming more committed in pursuing its long-term domestic economic goals, alongside a particularly stronger focus in its economic relations with ASEAN. Singapore is India's largest investment partner in ASEAN. This paper analyses the roles Singapore could play in boosting its bilateral trading and investment relations with India.

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A two-day Association of Southeast Asian Nations (ASEAN)-India Commemorative Summit, marking the 25th anniversary of India-ASEAN ties, was held in New Delhi, India, on 25 and 26 January 2018. As the ASEAN Chair for 2018, Singapore's Prime Minister Lee Hsien Loong co-chaired the Summit with India's Prime Minister Narendra Modi under the theme "Shared Values, Common Destiny". While the Summit discussed a wide range of cooperation possibilities under India-ASEAN relations, one key area highlighted was economic integration

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through the Regional Comprehensive Economic Partnership (RCEP).² In light of the commemoration and calls for greater economic integration, it is timely to analyse the roles Singapore could play to boost its bilateral trading and investment relations with India, with perspectives from ASEAN-India economic cooperation and the existing India-Singapore Comprehensive Economic Cooperation Agreement (CECA).

Since the last ASEAN-India Commemorative Summit in 2012 that marked two decades of India's 'Look East' policy, India has become clearer and more committed in pursuing its long-term economic goals. Domestically, with the 'Make in India' initiative, the Indian government has made commitments to grow its manufacturing sector, including automobiles, primary resources and processing that attempt to combine technology and raw materials to produce higher-level manufactured goods. These are aimed at boosting manufacturing growth to 10 per cent per year, given that India's own manufacturing share (value added) in its gross domestic product has fallen to 29.5 per cent in 2015, compared to 34.6 percent in 2007.³ Under Prime Minister Modi's government, a 2015 Foreign Trade Policy aims to double India's global exports and increase its share in the global trade from 2.1 per cent to 3.5 per cent by 2020.⁴

A transition from the 'Look East' policy to the 'Act East' policy is, therefore, seen as a reflection to boost foreign trade in goods, in particular manufactured goods. However, there appear to be several important reasons for India's keen focus on ASEAN.

India's share in ASEAN's global trade has grown between 2000 and 2016 (See Table 1), arguably due to the ASEAN-India Free Trade Area (AIFTA) that covers approximately 90 per cent of tariff lines between ASEAN and India. Among the ASEAN countries, Singapore offers zero effective applied tariff rates to India for World Trade Organization-classified agricultural, industrial and petroleum products, thereby allowing India greater market access, in comparison to other regional countries in the RCEP.⁵

² The Regional Comprehensive Economic Partnership is an ASEAN-centred trade pact between its 10 member countries and its six free trade agreement partners, estimated to cover over one-third of the world's gross domestic product with a collective market consisting of 48 per cent of the world's population.

³ Sahoo, P, Goswami, N, & Mazumdar, R (2017). *Trade Facilitation: Must for India's Trade Competitiveness*. Journal of World Trade, 51(2), pp 285-307.

⁴ Puri, H (2017). India's Trade Policy Dilemma and the Role of Domestic Reform. http://carnegieendowment.org/files/CP_298_Puri_Trade_A5_Web.pdf. Accessed on 26 January 2018.

⁵ Latest data available from UN COMTRADE database.

India's greater market access to ASEAN is evident from the average year-on-year growth of 20.11 per cent (2000-2016) of India's total exports to the ASEAN countries. This is higher than the growth in India's total exports to East Asia and the Oceania in the same period.⁶ However, India has witnessed a decline in ASEAN's share in its global trade. While the share of the East Asian and Oceania countries in India's global trade has risen between 2000 and 2016, ASEAN's share in India's global trade has declined in the same period (See Table 2).

Table 1: India's share in the RCEP countries' trade with the world

Regions	2000 (In per cent)	2016 (In per cent)
East Asia	0.45	1.68
ASEAN	1.43	2.81
Oceania	0.98	2.78
All RCEP countries (excl. India)	0.79	2.04

Source: Calculated with latest available data from International Trade Centre, Trade Map, and data from World Integrated Trade Solution, World Bank

Table 2: Share of the RCEP countries in India's trade with the world

Regions	2000 (In per cent)	2016 (In per cent)
East Asia	7.89	15.99
ASEAN	12.26	10.47
Oceania	1.67	2.03
All RCEP countries (excl. India)	21.82	28.49

Source: Calculated with latest available data from International Trade Centre, Trade Map, and data from World Integrated Trade Solution, World Bank

Based on these trends, bilateral trade in goods between India and ASEAN is and will continue to remain, a huge aspect of India-ASEAN economic integration. Nonetheless, the ASEAN countries are also likely to search for economic opportunities with India that stretch beyond the trade in goods. There are several reasons for this.

Currently, total ASEAN exports to India experienced an average year-on-year growth of 20.21 per cent between 2000 and 2016, higher than the exports from East Asia and Oceania to India.⁷

⁶ 2000-2016 data from UN COMTRADE database.

⁷ 2000-2016 data from UN COMTRADE database.

However, given the current AIFTA tariff arrangements, the Effectively Applied Tariff Rates that ASEAN collectively offers to India appear far lower than what ASEAN receives from India. For instance, while ASEAN offers India approximately five per cent and three percent for agricultural goods and industrial goods respectively, India offers ASEAN approximately 26 per cent and eight per cent.⁸ Furthermore, an increasingly similar export structure in agricultural and industrial goods among some ASEAN+3 (China, Japan and South Korea) countries suggests that those capable of moving up the product value chain and developing their respective tertiary sector may eventually consider the diversification of their traded products and services exports from the other ASEAN trading partners to India.⁹

Nonetheless, the above transformations remain highly dependent on the individual ASEAN countries' domestic factors and competitive advantages. In Singapore's case, it is reasonable to suggest that the India-Singapore CECA, which came into force in August 2005, allows Singapore the pre-conditions to continue focusing on trade in services and investments with India. The CECA's coverage in non-trade goods is wide. Apart from the movement of natural persons, the CECA covers air transport services and, more importantly, an e-commerce chapter that provides national treatment for the trade in digital products.¹⁰ The CECA also allows the enhancement of foreign commercial presence (Mode 3) from Singapore into India with the provision of investment protection clauses for investors from both countries.¹¹ On India's end, it also includes its investment schedule that covers infrastructure where technology and management expertise is highly required.¹² These appear to be instrumental to Singapore's future economic interest, as greater transport and digital connectivity have been highlighted by Prime Minister Lee in a recent article in *The Business Times* during the Summit.¹³

On the ground, there also appears to be strong basis for attaining higher level of two-way investments between Singapore and India. India had an average year-on-year growth of 35.28 per cent in services exports to Singapore between 2000 and 2010. This is comparable to India's year-on-year growth of 33.57 per cent of services exports in the same period to Japan, also one

⁸ Latest data available from World Integrated Solution database.

⁹ Nguyen et. al (2017). *Similarity in trade structure: An evidence from ASEAN+ 3*. The Journal of International Trade & Economic Development, 26(8), pp 1000-1024.

¹⁰ Kelegama, S (2009). *Trade in services in South Asia: Opportunities and risks of liberalization*. SAGE Publications India, 49-50.

¹¹ Ibid.,

¹² Ibid.,

¹³ Lee, Hsien Loong (2018). ASEAN and India: 25 years and beyond. <http://www.businesstimes.com.sg/opinion/asean-and-india-25-years-and-beyond>. Accessed on 26 January 2018.

of India's largest investment partners.¹⁴ India's foreign direct investment policies are also constantly witnessing positive transformations, with several key sectors such as civil aviation, pharmaceuticals and power exchanges becoming more liberal recently.¹⁵ On Singapore's end, India was its 9th largest investment partner in 2016, with Singapore's investments in India amounting to US\$27.7 billion (S\$36.3 billion).¹⁶ Singapore is also one of India's largest trade and investment partner in ASEAN.

In both multilateral and bilateral terms, Singapore remains committed to playing its role, as one of ASEAN's largest trading and investment partner with India, in New Delhi's 'Act East' policy. While the AFTA and the RCEP place emphasis on the trade in goods, the current broad coverage of the India-Singapore CECA could allow both countries to focus on trade in services and bilateral investments in order to capitalise on their maximum potentials.

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¹⁴ Latest available data from UN Service Trade Database.

¹⁵ FDI Policy Further Liberalized in Key Sectors. <https://www.ibef.org/research/reports/fdi-policy-further-liberalized-in-key-sectors>. Accessed on 26 January 2018.

¹⁶ Singapore's Direct Investment Abroad. http://www.singstat.gov.sg/docs/default-source/default-document-library/statistics/visualising_data/singapore-direct-investment-abroad2016.pdf. Accessed on 26 January 2018.