BusinessLine
MONDAY • FEBRUARY 27 • 2017

From Look East to Act East

Developing new global value chains in partnership with the four least-developed economies of Asean is a good idea

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India's 'Act East' policy, upgraded from the 'Look East' policy in 2014, serves as a platform for deepening and strengthening its relationship with Asean and the East Asian economies. The least-developed nations of Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) have been a special focus area for India.

The four, together, account for over a quarter of Asean's population and 12 per cent of its GDP. Over the last three years, the average growth rate of the region was 7.2 per cent, well over the Asean average of less than 5 per cent.

Driven by proactive governance, abundant natural resources, and a competitive workforce, the CLMV countries have been attracting investments from across the world. Collectively, about $63 billion of FDI came in over 2011-2015, with Vietnam accounting for about two-thirds of this.

The advantage

At a time when manufacturing facilities are shifting to lower-cost economies, both India and the CLMV countries enjoy an advantage. With 'Make in India' emerging as a key campaign for manufacturing, developing new global value chains in partnership with the four least-developed economies of Asean would bring benefits to both sides.

While trade and investment must be greatly increased, it is also important for India to develop infrastructure projects for transport connectivity.

India has also strategically focussed on human capacity development and small projects with high impact to address poverty alleviation.

Regarding trade between the two sides, it is pertinent to note that there was a sixfold increase between 2006 and 2015, to stand at $12 billion.

However, in 2015, trade fell owing to global conditions. India's exports came in at $9 billion and imports at $3.8 billion in 2015-16, the bulk of this arising in Vietnam. Trade with Cambodia and Lao PDR remains at very low levels, despite doubling over the year.

There is certainly scope to increase bilateral trade, including exports, as India's share of the total trade of these countries has remained stagnant.

Moreover, a high proportion of India's exports are primary commodities such as meat products to Vietnam and sugar to Myanmar. Among manufactured products, automotive, pharmaceuticals, and electrical goods are the chief export goods.

It is interesting that India's imports from Vietnam, its major import partner in the region, are centred around electrical goods and machinery and equipment. Some areas where trade could be stepped up include agriculture and agricultural machinery, engineering goods and components, food processing, textiles and garments, and pharmaceutical products.

Build better bridges For greater cooperation and economic growth

Focus areas

The effort of working with the least-developed Asean members should focus on increasing our imports from these countries.

While India has offered zero-duty import facility under its LDC programme, leveraging this adequately would require Indian companies to boost their investments to CLMV.

Currently, cumulative investments in these countries amount to less than $800 million, again directed primarily towards Vietnam. A large number of prominent Indian companies are already invested in the CLMV region across sectors such as IT services, energy and mining, steel and consumer products.

Sectors that offer investment potential include infrastructure such as ports and roads, oil and natural gas, mining, and manufacturing and services sectors.

With the proximity of these countries to vibrant East Asian supply chains and rising FDI from other investors, India should take care to cement its position in the region.

On the infrastructure side, India has been involved with several projects such as the India-Myanmar-Thailand trilateral highway to be completed by 2019. Its extension to Cambodia, Lao PDR and Vietnam could improve connectivities.

The Kaladan multimodal transit transport system to connect India's North-East with Myanmar's Sittwe port would also open up new routes for goods.

India has set up a Project Development Fund for CLMV countries amounting to ₹500 crore. This will help facilitate Indian investments and broaden the manufacturing engagement of Indian companies in the region.

The objective is to support regional value chains with greater integration of India. EXIM Bank of India also provides lines of credit for projects in power, irrigation and railways, among others, currently amounting to about $750 million. For human capacity building, India has set up facilities for English language training, entrepreneurship development, and IT skills.

The fourth India-CLMV conclave is to be held in Jaipur. Earlier editions had made key recommendations to promote economic engagement. They included bilateral tax treaties and easier visa norms, transport connectivity through land, sea and air routes, and simplification of customs rules and regulations.

India's relations with CLMV are a critical component of its overall external economic engagement.

The upcoming focussed interaction will help leverage the emerging opportunities for both sides.

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