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Highlights

Hedge Fund | COVID Impact on SMEs | South Asian Economy | ASEAN-India Economic Ties |

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South Asian Economies during the COVID-19 Pandemic

Paramita Mukherjee* and Sahana Roy Chowdhury**

Abstract

The article looks at the performance of the South Asian economies in the recent past and presents some analysis on the overall impact of the COVID-19 pandemic. While the region has been one of the worst affected region by the pandemic, the economic distress in the countries differ across countries. It is observed that Bangladesh has performed quite well even during the pandemic and stands as a glaring exception, other economies also have recovered from the initial shock and are on the track of regaining strength in near future.

Keywords: South Asia, Economic performance, post -COVID economy

1. Introduction

Like other regions, South Asian economies have also been impacted by the ongoing coronavirus pandemic. Among the developing Asia, majority of the coronavirus cases were reported in South Asia (Sawada and Sumulong, 2021). Apart from the effects like increased mortality in the short and medium term, the pandemic has had several economic impacts including declines in consumption, and consequently business sales, as well as a fall in investment, spillovers of weaker demand to other sectors from travel and some other services sector through trade and production linkages and supply-side disruptions to production and trade. According to Abiad *et al.*, (2020), about 27 per cent to 30 per cent of global losses owing to the pandemic accrue to developing Asian economies. From Figure 1 it is quite obvious that among other regions, Europe and developing Asia are suffering highest GDP loss and among Asian countries South Asian economies are the worst sufferer with a drop in GDP of 13.2 per cent in 2020 and a projected 9.4 per cent in 2021.

However, recovery has started and is above expectation so far, though it varies from one country to the other. Though tourism-dependent economies such as Maldives are heavily impacted, compared to 2019, remittances increased by 0.7 per cent on an average in the first three quarters of 2020

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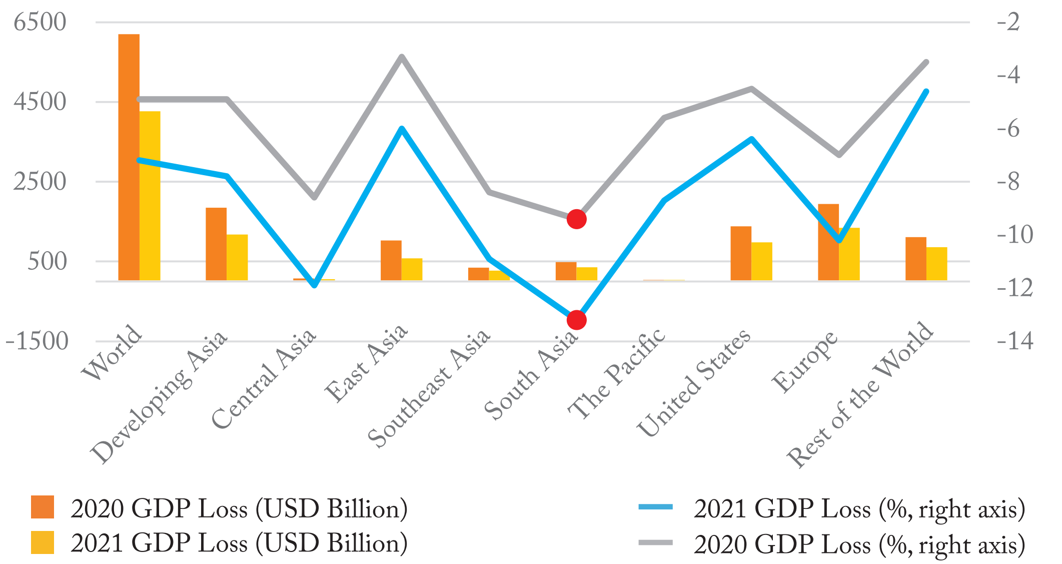
Figure 1: Estimated GDP Loss due to Pandemic



Source: Abiad *et al.,* (2020)

across developing Asia, driven by Bangladesh and Pakistan (ADO, 2021). Fiscal support from the government, accommodative monetary policy and vaccination have bolstered the investor sentiment and financial markets have also recovered after a sudden fall for a very brief period of time in early 2020 at the onset of the pandemic. Foreign investment flows also returned to the pre-pandemic level in developing Asia.

At this backdrop, we dig deeper to find out how the South Asian economies are affected. The numbers of COVID-19 cases in these economies were higher compared to other countries in other regions and we present here a brief overview of the impact of this pandemic on specific countries in South Asia, viz. Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. In the next section we describe the detailed economic analysis and in section 3 we conclude this article.

2. Economic Analysis

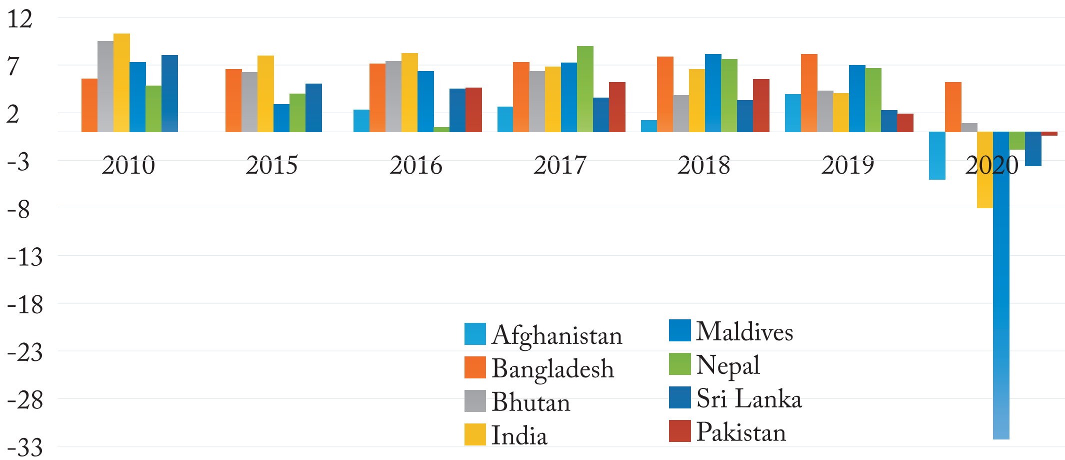
The analysis is based on the data on South Asian economies from International Monetary Fund (IMF) World Economic Outlook (2021) and Asian Development Bank (ADB) Asian Development Outlook (2021). However, complete data on Pakistan and Afghanistan since 2010 was not available for the entire period for all the variables we have taken.

2.1 Economic Growth

If we look at the annual growth of the South Asian economies in the last decade, Bangladesh stands out from the rest [Figure 2]. From 2016 onwards, it has maintained a GDP growth of above 7 per cent and during the pandemic, too it maintained the growth rate of 5 per cent, unlike any other economy in the region. Growth was already sluggish since 2016 in Afghanistan, Pakistan and Sri Lanka with growth rates less than 5 per cent. Afghanistan and Sri Lanka suffered a setback with the onset of the pandemic with GDP shrinking by 5 per cent and 3.6 per cent, respectively. India maintained a decent growth rate of 6.4 per cent on average during 2016-19 pre-pandemic followed by a precipitous fall in the growth rate to -8 per cent in 2020. Maldives has shown a staggering fall in growth rate of -32 per cent, mostly triggered by an acute deceleration in their tourism sector during the COVID pandemic; this sector has structurally been their major growth contributor. While Nepal has shown a negative growth rate (-1.9 per cent), Bhutan faced a meagre 0.9 per cent growth rate in 2020. In Bhutan, supply chain was severely affected by the closure of border since March, 2020 as an aftermath of COVID-19, which also led to a fall of 35 per cent in international tourist arrivals; this also caused a shortage of labour as there was exodus of expatriate workers. Nepal was no exception with trade and manufacturing sector being the hardest hit.

How did Bangladesh sustain with a positive and high growth rate during the pandemic? Industry did suffer at the onset of the

Figure 2: GDP Growth (per cent)



Source: WEO (2021) and ADO (2021)

pandemic as exports plummeted with cancellation of garment shipments, but growth in agriculture and services sector remained quite steady. Also, robust growth in remittances helped in sustaining domestic demand; such growth in remittances was backed by a 2 per cent government cash incentive from the beginning of the fiscal year and also, relaxation of documentation requirements later in the year. The expansionary monetary policy, coupled with higher government spending contributed to the buoyancy of the economy during the pandemic. Despite an expansionary fiscal policy, Bangladesh was able to contain the government debt to GDP ratio at 38.3 per cent in 2020-21.

Among other countries, Maldives suffered heavily owing to pandemic with a sharp decline in tourism, with tourist arrivals reversing from a 14.7 per cent increase in 2019 to a contraction of 67.4 per cent in 2020. High end tourism helped Maldives to gain upper-middle-income status with the highest per-capita income among the South Asian countries. But Maldives is highly vulnerable to economic shocks and climate change impacts since it is a small island economy. The service sector and industry in Maldives contracted by staggering 32.7 per cent and 21.3 per cent respectively, although growth of agriculture sector remained quite robust at 6.4 per cent. In October 2020, ADB endorsed their strategic action plan for 2020-2024 which is aligned to the government's action plan 2020-25, that emphasizes on three priorities- enhanced competitiveness with a diverse economic base, quality of life containing environmental concerns, and fiscal sustainability. In Pakistan, industry and service sectors suffered while in Afghanistan, apart from political uncertainty, both industry and service sectors recorded negative growth at the back of decline in demand, remittances and trade. In Nepal, both industry and services contracted, although agriculture restored positive growth of 2.2 per cent. The growth in India was mainly pulled down by contraction in the industry and the service sector where contraction of 8.2 and 8.1 per cent were observed, respectively. Quite exceptionally, among the South Asian economies the service sector in Bhutan grew by 3.8 per cent, although industry growth declined to -1.1 per cent. In Sri Lanka, a number of measures were undertaken at the onset of the pandemic in 2020 that included monetary easing, loan refinancing, moratoriums for distressed borrowers and cash transfers to people who had lost income due to COVID-19 restrictions.

2.2 Size of the Economies

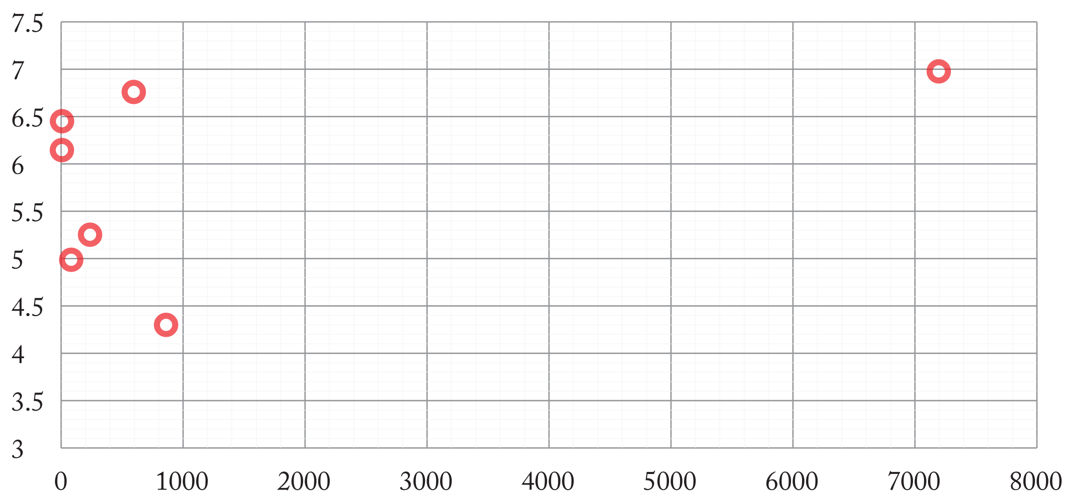
If we look at the size of the South Asian economies in terms of GDP at current prices (on PPP basis), it varies widely across the countries, e.g. during 2019, while it ranges from around USD 9 to 11 billion for Bhutan and Maldives, it stands over USD 9500 billion for India. For the rest of the economies in the region, it ranges between USD 118 billion to

869 billion[1]. Now, the variation of GDP growth in these economies is evident from Figures 3.1 and 3.2. It is observed from Figure 3.1 that as a big economy, India is a glaring exception with high average growth rate of around 6.98 per cent during 2010 to 2019, whereas Pakistan and Bangladesh, relatively larger economies compared to the rest, have different growth experience with Bangladesh recording a high growth rate. From Figure 3.2, the impact of the pandemic is quite obvious with almost all countries experiencing shrinkage in GDP in 2020 barring Bhutan and Bangladesh. Similar variation is observed in terms of GNI per capita as well [Table 1]. Countries such as Bhutan, Maldives, Sri Lanka have higher per capita income in 2019 compared to the biggest economy in the region, viz. India. Interestingly, Bangladesh has surpassed India in 2020-21 with per capita income at USD 2227 compared to USD 1947 for India[2].

2.3 Sectoral Impact

In the pandemic, service sector and industry have been the worst affected sectors in most of the economies. South Asia is no exception as barring Bhutan, in all the economies of the region, service sector has the highest share (more than 50 per cent as on 2019) in gross

Figure 3.1: Average GDP Growth (per cent) Vs Average GDP (PPP, $ billion) during 2010-19

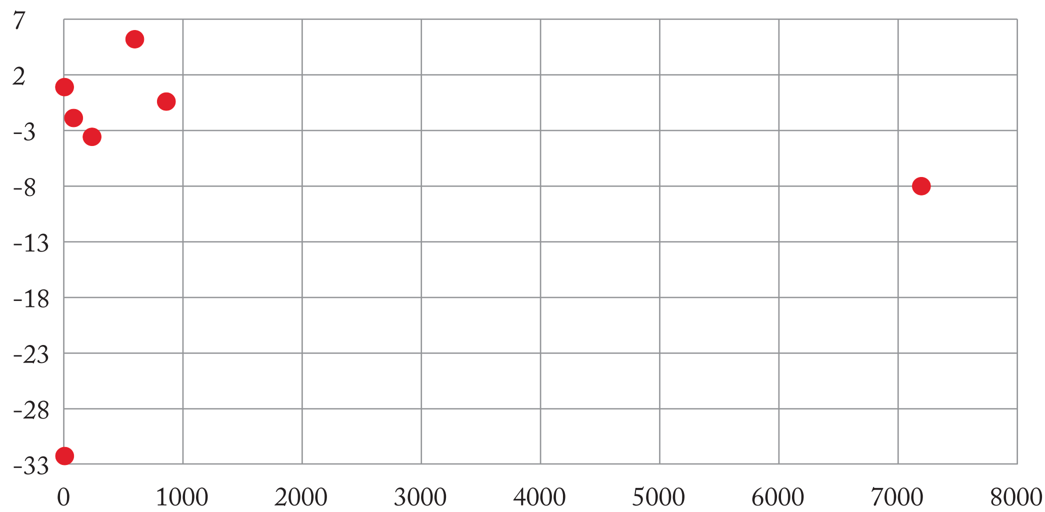


Source: WEO (2021) and ADO (2021)

[1]World Bank data and IMF World Economic Outlook, 2021.

[2](May 23, 2021).India Falls Behind Bangladesh in Per Capita Income by $280, *New18*. Retrieved from: https://www.news18.com/news/business/india-falls-behind-bangladesh-in-per-capita-income-by-280-3768293.html

Figure 3.2: GDP Growth 2020 (per cent) Vs Average GDP (PPP, $ billion)



Source: WEO (2021) and ADO (2021)

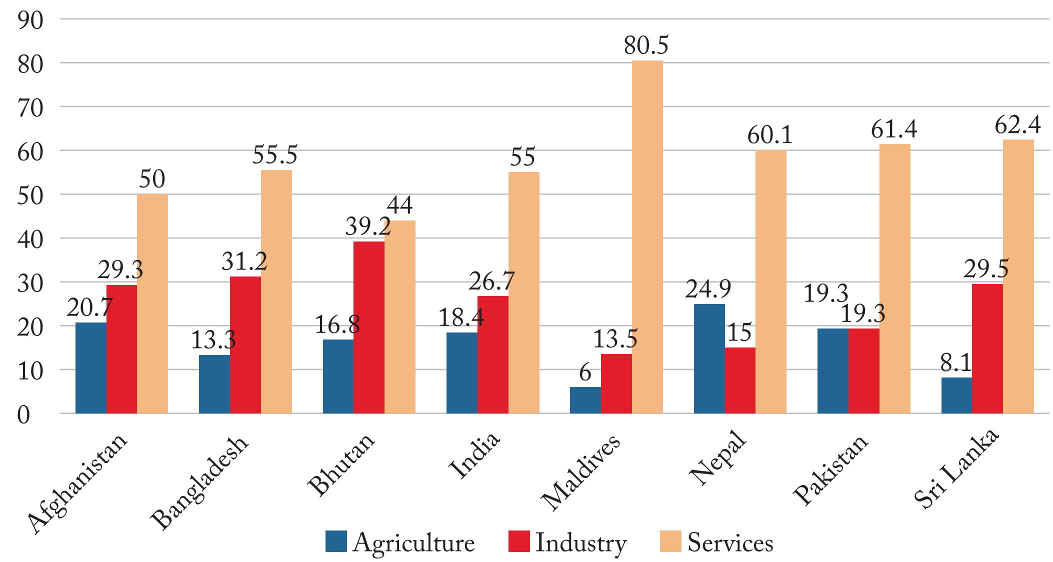
Table 1: GDP and Per Capita Gross National Income in 2019

	PC GNI (USD)	GDP (PPP, USD billion)
Afghanistan	530	NA
Bangladesh	1940	869
Bhutan	3140	9
India	2120	9562
Maldives	9680	11
Nepal	1090	118
Sri Lanka	4020	297
Pakistan	1410	1059

Source: ADO and WEO

value added [Figure 4]. The share of service sector in Maldives is more than 80 per cent. On the other hand, the share of agriculture ranges between 6 per cent and 25 per cent. Given such sectoral compositions, we now look at the sectoral growth rates in 2019 and 2020. It is observed from Table 2 that during the pandemic, almost all the countries have been able to sustain a positive growth rate in agriculture (barring only Sri Lanka), whereas service sector growth rates were negative, except in Bhutan and Bangladesh. In industry, in countries such as Bhutan, India and Pakistan, industrial growth was negative even before the pandemic. And in 2020 it further deteriorated with other countries also experiencing shrinkage in industry; only Bangladesh remained to be a glaring exception.

Figure 4: Sectoral Shares in 2019



Source: ADO, 2021

Table 2: Sectoral Growth Rates Before and During Pandemic

	2019 Growth (per cent)			*2020 Growth (per cent)*		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Afghanistan	17.5	4.8	-1.4	5	-5	-9.6
Bangladesh	3.9	12.7	6.8	3.1	6.5	5.3
Bhutan	2.7	-1.6	10.8	2.6	-1.1	3.8
India	4.3	-1.2	7.2	3	-8.2	-8.1
Maldives	5	1.5	8	6.4	-21.3	-32.7
Nepal	5.2	7.4	6.8	2.2	-4.2	-3.6
Pakistan	0.6	-2.3	3.8	2.7	-2.9	-0.6
Sri Lanka	1	2.6	2.2	-2.4	-6.9	-1.5

Source: ADO, 2021

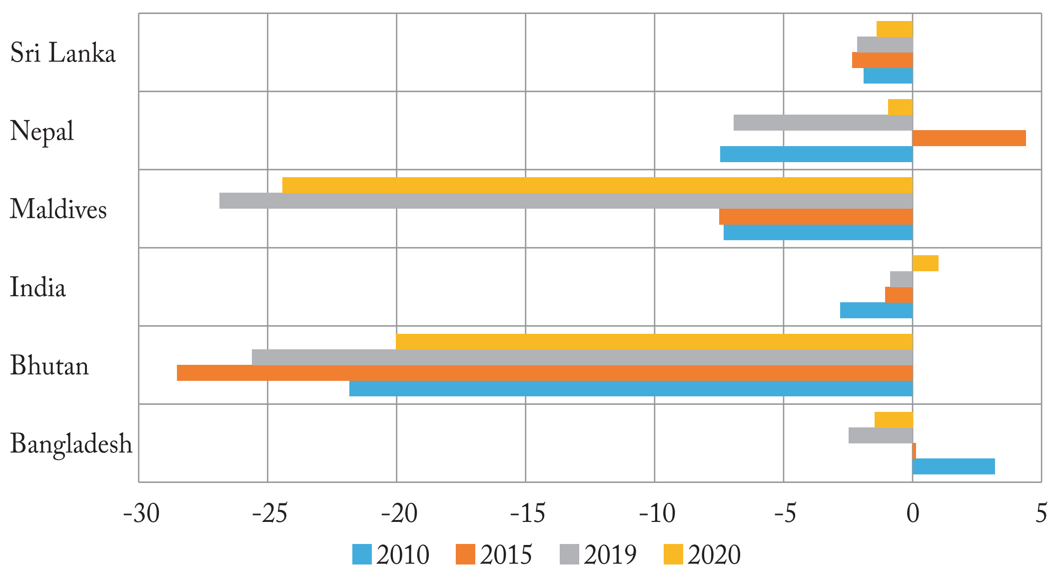
2.4 Savings and Investment

During the COVID-19 pandemic supply-chain disruptions have been rampant that influenced fresh investment proposals and capital formation. On the other hand income uncertainties and shocks triggered consumption demand to dampen. This is quite evident for several countries with the exception of few who have had prevailing structural causes for the same much ahead of this pandemic. We looked into the saving-investment gaps of the South-Asian economies [Figure 5] and observe that the gap widened in 2020 over 2019 without exception and stayed negative, except in India where the gap becomes remarkably positive. This implies an expected improvement in the current account balance indicator on trade front.

2.5 Fiscal Scenario

It is expected that during the pandemic, the government spending would increase in the form of stimulus, welfare spending, infrastructure building specifically towards health sector, and many more to rescue economies from probable disastrous consequences, the covid pandemic has been no exception. Both the advanced and the developing economies across the globe, have prioritized on fiscal expansion which they find as the need of the hour, and relaxed their fiscal responsibility norms, while many others created fresh debts to meet the burgeoning economic needs during the pandemic. Taking stock of the fiscal health of the South Asian economies we find that [Figure 6] barring Afghanistan and Bhutan all of the economies

Figure 5: Saving-Investment Gap



have had high fiscal deficit more than 5 per cent of their GDP, the indicator being exceptionally high for Maldives (27.5 per cent). While Nepal and Bangladesh are in the small deficit and small debt segment with debt to GDP ratio around 40 per cent, India and Sri Lanka are in the high deficit-high debt segment, with debt to GDP ratio hovering over 90 per cent. Bhutan remains to be an exception with low fiscal deficit and high debt to GDP ratio. Needless to mention that India surpassed, and is well beyond its deficit target as stipulated by the existing fiscal rule. On the debt front also, there are warnings from international organizations on possibilities of entering into debt traps. Nonetheless, the covid pandemic situation has been quite unprecedented. To avoid irreversible economic ramifications such well-crafted fiscal expansions are desirable, and are unlikely to be construed as fiscal profligacy.

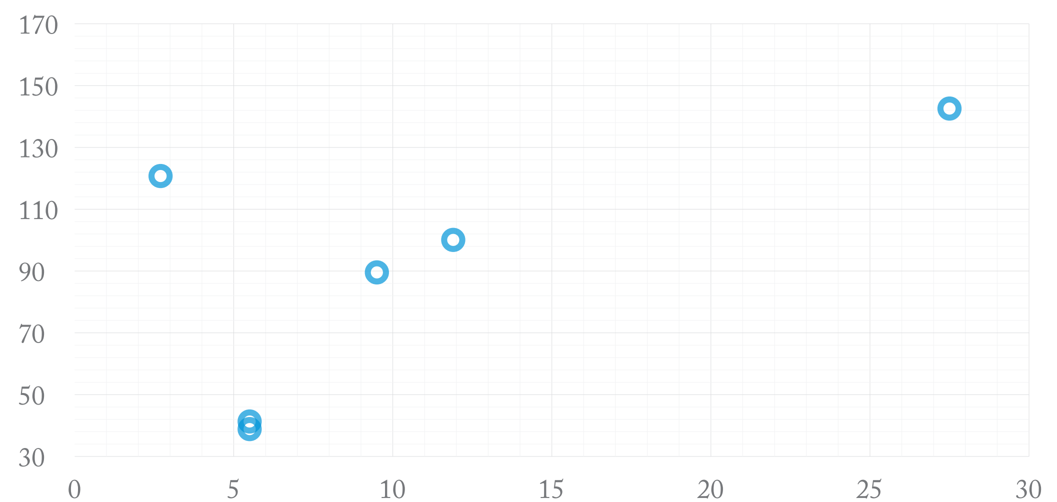
2.6 Trade Scenario

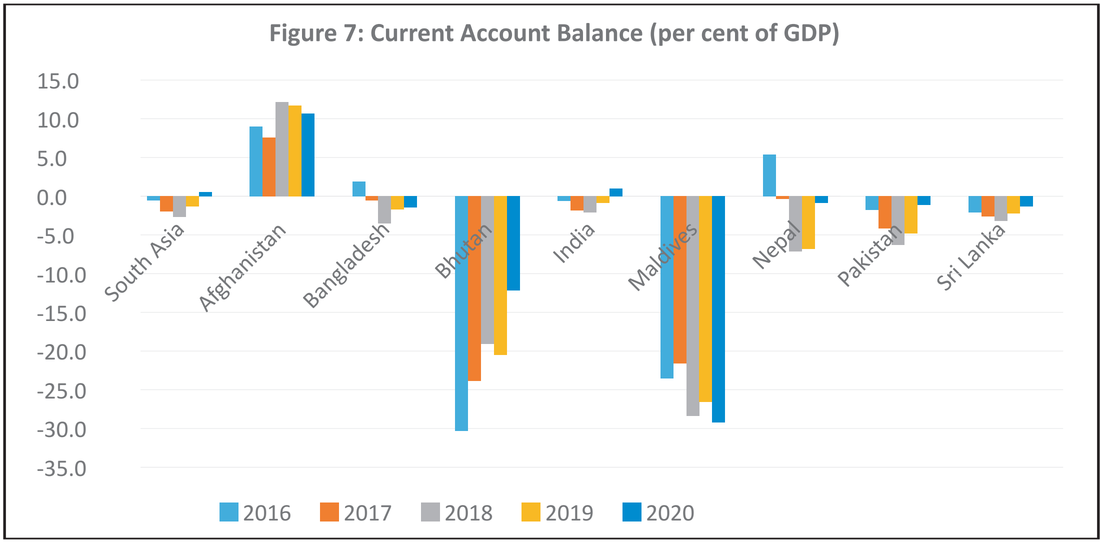
During the COVID-19 pandemic the trade scenario has not been remarkably worse in the Asian economies in general, unlike that in the European economies and in the USA. If we look into the South Asian economies we find that trade scenario depicted by the current account balance in Bhutan and Maldives, which is a tourism driven economy have been exceptionally worse [Figure 7]. However, mostly the South Asian economies followed their trends or in fact, in some cases witnessed a favorable trade balance (e.g., India).

3. Conclusion

As per ADO (2021), in South Asia, aggregate output growth is projected at 9.5 per cent in 2021 and 6.6 per cent in 2022. This largely

Figure 6: Government Gross Debt to GDP Vs Fiscal Deficit to GDP in 2020





reflects economic recovery of India, which is expected to rebound from an 8.0 per cent contraction in 2019-20 to GDP growth of 11 per cent and 7 per cent in FY 2021 and 2022, to be supported by exports. Inflation forecast as per the ADO 2021 for South Asia is raised in 2021 from 5.5 per cent to 5.8 per cent. This mainly reflects higher forecast for India, which is kept unchanged in 2022 at 5.1 per cent. Maldives is also expected to recover from a sharp recession through renewed tourism demand, with a growth forecast of 13.1 per cent in 2021 and 14.0 per cent in 2022. Among other countries, Afghanistan, Nepal, and Pakistan are also expected to be on growth path once COVID-19 related restrictions are lifted, with buoyant remittances. Bangladesh has weathered the pandemic better than most economies in South Asia and will continue to grow strongly backed by exports. Economic activity in Bhutan is projected to contract by 3.4 per cent in fiscal year 2021, owing to strict border restrictions, but growth is forecast at 3.7 per cent in 2022. However, in Sri Lanka growth in 2022 may be moderated by macroeconomic conditions.

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COVID-19: Impact on Indian SMEs and their Trade Integration

Arpita Mukherjee* and Eshana Mukherjee, [1]**

Abstract

The Micro, Small and Medium Enterprises (MSMEs) sector is often referred to as the backbone of the Indian economy, contributing to around 30 per cent of the gross domestic product, around 50 per cent of exports and accounts for a major share in employment. Under the AatmaNirbhar Bharat Abhiyan, the Central government intends to enhance the share of MSMEs in exports to approximately 60 per cent in the next five years. These announcements come at a time when the coronavirus (COVID-19) pandemic has adversely impacted the MSME sector across the world and especially in India due to pandemic related lockdown and supply chain disruptions. With this background, based on secondary data analysis, key informant interviews and stakeholder consultations, this article discusses the impact of the COVID-19 pandemic on the Indian MSMEs across different sectors and their integration in global value chains. The article lists the issues faced by the MSMEs and makes policy recommendations which, if implemented, can help the MSMEs to grow, enhance their exports, which in turn, will help the Indian economy to bounce back from the current slowdown. Reaching a target of US$5trillion economy by 2024-25 can be possible if the MSME sector bounces back and integrates into the global market.

Keywords: SMEs, COVID-19, India, policy

1. Introduction

Globally, small and medium enterprises (SMEs) represent around 90 per cent of the businesses and about 50 per cent of employment (World Bank, 2020). In Asia, the micro, small and medium enterprises (MSMEs) account for 96 per cent of total enterprises, employ 62 per cent of the labour workforce and contribute to around 42 per cent of the gross domestic product (GDP)

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[1] *The key informant interviews for this study were funded by the Foreign, Commonwealth & Development Office, United Kingdom (UK) under their joint capacity building programme with the Indian government, Economic Policy and Prosperity Partnership (EPPP), to support the Department of Economic Affairs, Ministry of Finance in their G20 negotiations. This paper presents some of the results of the pilot survey in India. The authors are grateful to all survey participants and would like to thank Drishti Vishwanath and Devyani Gupta for their valuable inputs.*

(ADB, 2015). Thus, a substantial share of any nation's economy is supported by the SMEs in the region. They are the key drivers of sustainable and inclusive growth; facilitate trade and investment by participating in global value chains (GVCs), promote employment and innovation, and have a high potential to contribute directly and indirectly to GDP (Business at Organisation for Economic Cooperation and Development (OECD) (BIAC); Business20 (B20) China; World SME Forum; SME Finance Forum, 2016).

Since December 2019, the world economy has seen a synchronised slowdown of growth and cross-border trade, due to the corona virus (COVID-19) pandemic, which has led to disruptions of GVCs due to the sudden lockdowns. Many countries have imposed protectionist measures, export restriction and are offering huge support for the domestic industry. At the same time, geo-political tensions between countries such as China and the United States of America (USA) and China and India have led to an uncertain trade environment. The growth in world GDP in 2020 was -3.8 per cent (International Monetary Fund (IMF), 2021). Growth in international trade in goods was -8 per cent in terms of value and growth in international trade in services was -20 per cent in terms of value.[2] Studies show that the MSME sector has been adversely impacted by the disruptions of GVCs and growing protectionism (OECD, 2020 and Bacchetta *et al.*, 2021). At the same time, the pandemic has also created opportunities for new businesses such as technology-based start-ups. There is a fast-track adaptation of the fourth industrial revolution (4^{th} IR) among the SMEs in many countries. Studies show that during the pandemic SMEs have been unable to meet client's delivery commitments due to sudden lockdowns, and/or did not have access to finance/working capital or technology to go online and therefore they lost business contracts (Bankowska *et. al.*, 2020). To support the SMEs, many countries such as the USA, Germany and Australia tried to provide liquidity through initiatives like extended or simplified provision of loan guarantees, direct lending to SMEs and grants and subsidies (OECD, 2020a).

The MSME sector is a major contributor to India's economic growth and is often referred to as the backbone of the Indian economy (Mukherjee, 2018). In the financial year (FY) 2019, India had over 63 million MSMEs. This

[2](March 31, 2021) World Trade Primes for Strong but Uneven Recovery After COVID-19 Pandemic Shock, *2021 Press Release, World Trade Organization (WTO).* Retrieved from:https://www.wto.org/english/news_e/pres21_e/pr876_e.htm#:~:text=World%20merchandise%20trade%20volume%20is%20expected%20to%20increase,of%20global%20trade%20remaining%20below%20the%20pre-pandemic%20trend.(last accessed July 13, 2021)

sector accounted for almost 30 per cent of India's GDP.[3] MSMEs have played a key role in generating employment, inclusive growth, industrialisation of the rural and backward areas and in exports.[4] The participation of Indian MSMEs in GVCs has been rising since the early 2000s (Reddy and Sasidharan, 2020). However, existing studies have also pointed out that there are several issues related to their participation in GVCs, with finance being one of the critical factors (Charan and Kishinchand, 2016; Reddy and Saidharan, 2020). According to Mahajan (2020), along with the pandemic, the geo-political tensions with China disrupted the supply chains of Indian MSMEs; the nationwide lockdown led to halt in production resulting in inability to pay their workers, leading to worker migration to their villages; risking closure of almost 25,000 operating MSMEs. At the same time, India, which is the third largest start-up hub in the world with around 12,500 technology start-ups in 2019, saw around 1600 new start-ups in 2020, which is the highest number in the past three years. In 2020, there were 12 new Unicorns, indicating that the technology sector has performed well amidst the pandemic.[5]

Given this background, this article discusses the impact of the COVID-19 pandemic on the Indian SMEs across different sectors and their integration in GVCs. The article lists the issues faced by this sector and makes policy recommendations which, if implemented, can help the MSME sector to grow, enhance their exports which in turn will help the Indian economy to bounce back from the current slowdown.

The article is divided into 6 sections. The next section, Section 2, presents the definition of MSME in India and the research methodology. Section 3 provides a brief overview of the status of the MSMEs in India prior to the COVID-19 pandemic and Section 4 focuses on the impact of the pandemic on Indian MSMEs, across different sectors. Section 5 presents the policy recommendations and way forward.

2. Definition of MSMEs and Research Methodology

According to the Micro, Small and Medium

[3](April 23, 2021) Micro, Small and Medium Enterprises as a Share of GDP Across India from Financial Year 2012 to 2019, Statista *Research Department*. Retrieved from:https://www.statista.com/statistics/912576/india-msmes-contribution-share-to-gdp/; (March 19, 2021) Number of Micro, Small and Medium Enterprises Across India in Financial Year 2019, By Major State, *Statista Research Department*. Retrieved from:https://www.statista.com/statistics/1123329/india-number-of-msmes-by-major-state/ (last accessed June 23, 2021)

[4](April 23, 2021) Micro, Small and Medium Enterprises as a Share of GDP Across India from Financial Year 2012 to 2019, *Statista Research Department*. Retrieved from:https://www.statista.com/statistics/912576/india-msmes-contribution-share-to-gdp/;*SME Chamber of India*.Retrieved from:https://www.smechamberofindia.com/about-msme-in-india.php(last accessed June 23, 2021)

[5]NASSCOM Strategic Review, 2021.

Enterprises Development (MSMED) Act, 2006 MSMEs are defined as *"all enterprises engaged in production of goods pertaining to any industry specified in the first schedule of Industrial (D&R) Act, 1951, and other enterprises engaged in production and rendering of services subject to limiting factor of investment in plant and machinery equipment respectively"*.[6] In June, 2020, to facilitate ease of doing business, the Government of India (GoI) introduced a new criterion for classifying MSMEs, based on their annual turnovers (see Table 1 below)

The available data on performance of MSMEs in India and their trade is limited. To mitigate data gaps, this article is based on secondary data and information analysis, and 35 key informant interviews (KIIs) and stakeholders' consultation with industry bodies. The secondary data presents the contribution of MSMEs to the gross value added (GVA), exports, employment, etc. The KIIs include MSMEs, their industry organisations, consultants/practitioners in the SME sector, and policy makers in India. 5 SMEs have been selected from 5 sectors each, namely apparel, engineering, tourism, information technology (IT), and agro-processing for the KIIs to understand the sector-specific impacts and requirements. The KIIs covered SMEs who are members of export promotion councils (EPCs) and Federation of Indian Micro and Small and Medium Enterprises (FISME). All of the SMEs were exporting prior to the pandemic. A semi-structured questionnaire was used to

Table 1: Revised Classification Applicable with effect from July 1, 2020

Composite Criteria: Investment in Plant & Machinery/Equipment and Annual Turnover			
Classification	**Micro**	**Small**	**Medium**
Manufacturing Enterprises and Enterprises Rendering Services	Investment in Plant and Machinery or Equipment: Not more than ₹ 1 crore and Annual Turnover not more than ₹ 5 crore	Investment in Plant and Machinery or Equipment: Not more than ₹ 10 crore and Annual Turnover not more than ₹ 50 crore	Investment in Plant and Machinery or Equipment: Not more than ₹ 50 crore and Annual Turnover not more than ₹ 250 crore

Source: Ministry of Micro, Small and Medium Enterprises, Government of India. Retrieved from: https://www.msme.gov.in/know-about-msme (last accessed June 23, 2021)

[6]The Micro, Small and Medium Enterprises Development Act, 2006. *Legislative Department, Ministry of Law and Justice, Government of India.* Retrieved from: https://legislative.gov.in/sites/default/files/A2006-27.pdf (last accessed June 23, 2021)

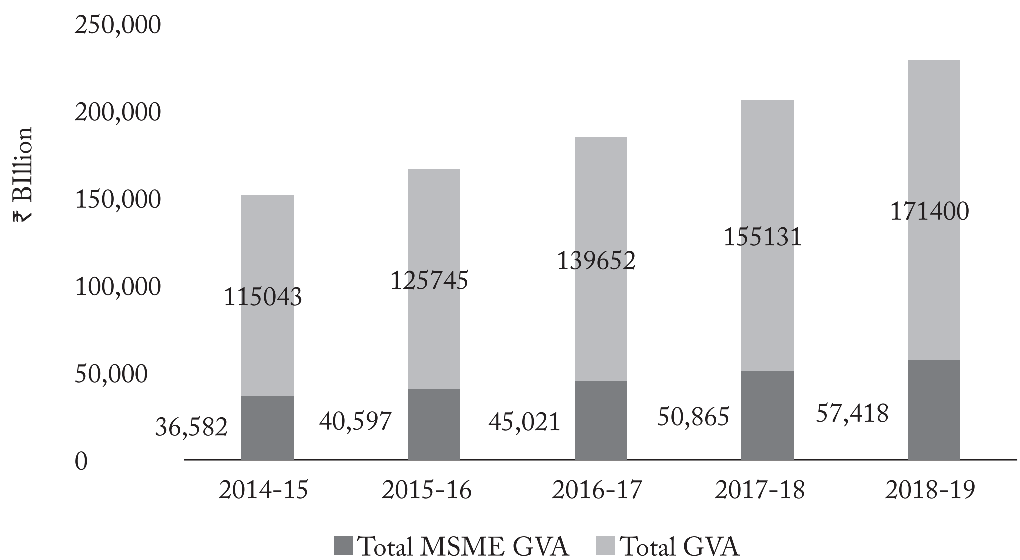
understand how the COVID-19 pandemic has impacted their trade and global value chain integrations, what kind of support they got, what are the key barriers that they are facing and what kind of support they need in future.

3. Status of MSMEs: Prior to the COVID-19 Pandemic

According to the National Sample Survey, 2015-16, India's MSME sector comprised of 63.40 million units; 31 per cent of which were in the manufacturing sector, 36 per cent in trade and 33 per cent in other services. The share of MSMEs in total GVA, increased from 31.80 per cent in 2014-15, to over 33 per cent in 2018-19 (see Figure 1). The sector employed more than 110 million people in the FY 2019-20, out of which urban employment, was 61.21 million (Ministry of Micro, Small and Medium Enterprises, 2021).

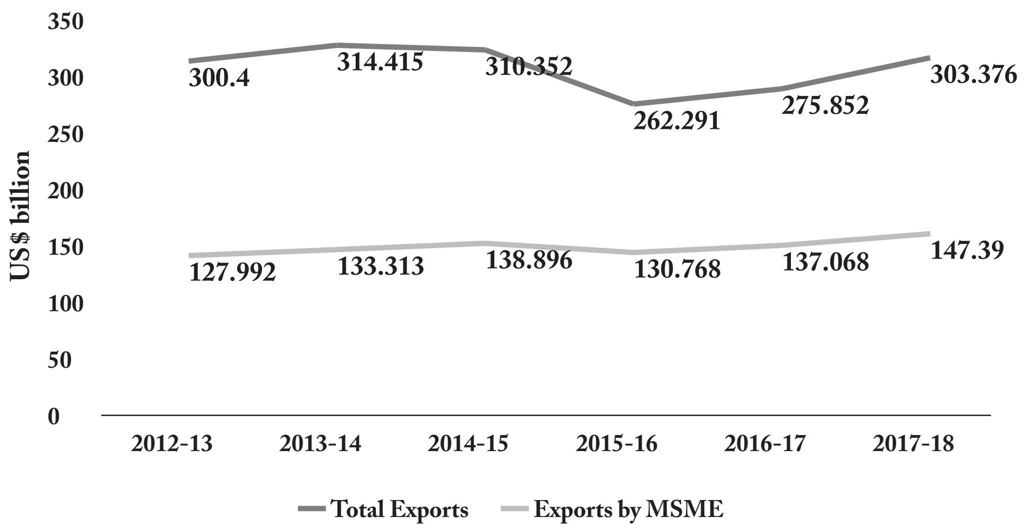
In 2019-20 (April - August), MSMEs accounted for around 49.6 per cent of India's exports, an increase from 43 per cent in 2012-13 (Press Information Bureau (PIB), 2019). The trend in growth of MSME exports in the period 2012-13 to 2018-19 is presented in Figure 2. It is important to note that the current estimates of MSMEs' economic contribution do not take into consideration the contribution made by the unorganised sector (due to unavailability of data), which is

Figure 1: Share of GVA of MSMEs in Total GVA



Source: Annual Report 2020-21. Ministry of Micro, Small and Medium Enterprises, Government of India. Retrieved from:https://msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-ENGLISH%202020-21.pdf (last accessed June 23, 2021)

Figure 2: Share of MSME Exports in Total Exports



Source: Reserve Bank of India (RBI) & Press Information Bureau (PIB)/Directorate General of Commercial Intelligence and Statistics. (DGCIS) Retrieved from: https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=924#CH2 (last accessed June 23, 2021)

around 80 per cent of the total MSME present in the country according the KIIs.

Under the AatmaNirbhar Bharat Abhiyan, the central government intends to enhance the share of MSMEs in exports to 60 per cent in the next 5 years. The government also wants to increase their contribution to the GDP to 40 per cent, from the present, around 30 per cent.[7]

4. Impact of COVID-19 Pandemic on Indian MSMEs: Key Informant Interviews and Stakeholders' Consultations

The interviewees pointed out that the Indian MSMEs sector was hard hit by the COVID-19 pandemic related sudden lockdown in March 2020. Since December 2019, the pandemic had disrupted the transportation system and supply chain, especially the sourcing from China, but the sudden lockdown of March 2020 brought their production to a grinding halt. 90 per cent of survey participants were not able to meet the client commitments. Those in perishable products like agro-processing, faced losses as

[7](July 4, 2020) In 2 Years' Time, MSMEs Will Contribute 60% to India's Exports: Nitin Gadkari, *The Economic Times*. Retrieved from:https://economictimes.indiatimes.com/markets/expert-view/in-2-years-time-msmes-will-contribute-60-to-indias-exports-nitin-gadkari/articleshow/76783949.cms(last accessed July 8, 2021)

consignments were held up in ports and products got damaged. Even after the opening up of the economy, 80 per cent of the survey participants complained about the shortages of containers at the port. For exports, a number of government clearances including quality checks by organisations like Export Inspection Council of India was physical prior to the pandemic, but it became online after the pandemic. The fast adoption of online clearance processes by the government agencies is considered to be a welcoming step by 60 per cent of our survey participants.

There has been a major change in the process of doing business pre-and post-COVID-19. For example, prior to the COVID-19 pandemic, in the export markets, MSMEs were mostly sub-contracted by the tier 1 partners. Only 50 per cent of MSMEs interviewed had got direct contracts through physical buyer-seller meets or personal contacts, and only 4 firms said that they have got business by connecting on-line. During COVID-19 many existing clients cancelled orders. Due to the lockdown, the SMEs could not connect to new clients physically and many of them did not know how to connect through online platforms. Reaching out to consumers has also been an issue for them. Less than 20 per cent of SMEs had e-commerce presence prior to the COVID-19 pandemic, but post COVID-19, 70 per cent of our respondents have created their own websites and/or have social media presence to connect to clients and consumers. Those who depended on sourcing of raw materials from China found severe disruption of supply chain even after the lockdown eased due to geo-political tensions with China. By sectors, MSMEs in some sectors like tourism and hospitality industry are more impacted than those in IT/ITeS. Even after the opening up of the economy inflow of foreign tourists were much lower in 2020 than in 2019.

Regarding their workers and employees, interviewees pointed out that the workforce in the IT companies are used to the concept of work-from-home but in case of manufacturing there is a requirement for workers to be present at the shopfloor. Given that many workers are contractual, and companies faced working capital crunch, they could not pay the workers. Therefore, migrant workers went back to their villages/native place. Thus, when the factories opened there was a shortage of workers. Implementation of social distancing norms and health related safety measures among workers (like asking the workers to wear a mask) has enhanced the costs and time taken by the management. Many firms have taken initiatives to get their workers vaccinated. Still factories cannot operate at full strength as of June 2021 due to state level lockdowns and social distancing norms.

Some survey participants pointed out that their machines got damaged as they were not running during the lockdown, while others like apparel manufacturers started manufacturing personal protective equipment

(PPE) kits and masks to keep their machines running.

80 per cent of the companies interviewed said that they have experienced a double digit fall in revenue due to fall in demand in the FY 2020-2021. This is especially true for manufacturing sector and some services sector like tourism.

Even before the pandemic, access to finance was a major issue for the MSMEs. The total addressable demand for external credit is estimated to be around ₹ 37 trillion, while the supply of finance from formal sources is estimated to be ₹ 14.5 trillion according to the Reserve Bank of India (RBI); this means that the credit gap in the MSME sector is estimated to be between ₹ 20 and ₹ 25 trillion. As of March 31, 2019, the banking sector had ₹ 17.4 trillion credit outstanding to MSMEs, out of which scheduled commercial banks account for 90 per cent of total credit. The share of non-banking finance companies (NBFCs) in outstanding credit to MSME was 9.3 per cent in March 2019 (RBI, 2019).

In the FY 2020-2021, the government had announced an economic package worth ₹ 30 trillion under the AatmaNirbhar Bharat Abhiyan due to the pandemic, with several measures catering to MSMEs including liquidity infusion and business support. These include new schemes such as Niryat Rin Vikas Yojana (NIRVIK); which provides high insurance cover, reduction in premium for small exporters and simplified procedures for claim and settlement; emergency credit line to MSMEs from banks and NBFCs up to 20 per cent of outstanding loan credit up to October 31, 2020; ₹ 200,000 million subordinate debts for stressed MSMEs; ₹ 500,000 million equity infusion for MSMEs through fund-of-funds for expanding size and capacity. At the same time, most of the existing schemes saw a decrease in funds. For example, there was a decline in funding under the Prime Minister's Employment Generation Programme (PMEGP); Entrepreneurship and Skill Development Programmes (ESDP); A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE), (see, Ministry of MSME, 2021). In the budget for FY 2021-22, a total amount of ₹ 156,996 million was allocated for development of the MSME sector, which is more than double of previous year.[8] Finance Minister, Nirmala Sitharaman, also announced industry specific incentives to boost manufacturing. For example, to boost the local textile industry, the establishment of 7 textile parks have been announced. She announced changes in customs duties to boost local manufacturing, eliminating 80 outdated exemptions.[9]

[8](February 01, 2021) Demand No. 67, Ministry of Micro, Small and Medium Enterprises. *Ministry of Finance, Government of India.* Retrieved from: https://www.indiabudget.gov.in/doc/eb/sbe67.pdf(last accessed July 9, 2021)

[9](February 02, 2021) Rs 15,700 Crore Provided for MSME Sector in Union Budget, *The Economic Times.* Retrieved from:https://economictimes.indiatimes.com/small-biz/sme-sector/rs-15700-cr-provided-for-msme-sector-in-union-budget/articleshow/80627459.cms?from=mdr (last accessed July 9, 2021)

However, the participants of KIIs felt that most of the incentives like the production-linked incentive (PLI) scheme are for larger companies and not for MSMEs, especially in a situation of demand crunch. Others like the textile parks will take time to set up and the MSMEs need immediate relief packages. Further, there are issues with scheme implementation. For instance, NIRVIK scheme though announced in the Union Budget 2020-21, had not been implemented till December 2020 according to the interviews. 60 per cent of the respondents pointed out that government initiatives under the AtmaNirbhar Abhiyan have been narrow in scope, since they target only MSMEs which are registered (which is around 10 per cent of total MSMEs) or have access to formal institutional finance (which is only around 6-7 per cent of total MSMEs). Thus, the benefits of the schemes have not percolated down to the firms that are in actual need of finance. Our KIIs found that even for SMEs with a bank account, no measures have been taken to support their working capital unlike in the case of farmers where there has been a direct money transfer to their bank accounts. Unlike other countries, the interviewees felt that financial incentives to SMEs during pandemic is far less, and not targeted towards addressing their issue of working capital crunch. Some pointed out that SMEs were asked to protect employee salaries, which they could not do as they did not have the working capital due to sudden lockdown.

There are other issues related to MSME finance; while over 90 per cent of MSMEs are present in the informal sector and do not have access to formal institutional credit, banks have not been able to use their funds targeted at MSMEs under the priority sector lending scheme. MSMEs face high interest rates; the Export-Import Bank of India provides loans at the rate of 10-12 per cent compared to countries like China where loans are provided at a rate below 1 per cent. Banks and business organisations pointed out that MSMEs are also considered high risk and they are unable to provide collateral; they do not pass the rigid credit conditionalities of banks or institutions like Small Industries Development Bank of India (SIDBI). There is also a lack of a unified alternative credit rating mechanism in India. The availability of digital credit and innovative fintech products are limited.

With the advent of the COVID-19 pandemic, many countries are supporting their MSMEs to export through right policies, which include direct cash infusion or innovative financial products. In case of India, the subsides given under Foreign Trade Policy were not compliant with the World Trade Organization's (WTO) Agreement on Subsidies and Countervailing measures known as the SCM Agreement. The USA challenged these subsidies and India lost the export-linked subsidy dispute to the USA in the WTO in 2019. Subsequently, the Merchandise Exports from India Scheme (MEIS) was replaced by the Remission of

Duties or Taxes on Export Products (RoDTEP). The new scheme aims to reimburse the taxes and duties incurred by exporters such as local taxes, coal cess, mandi tax, electricity duties, which are not exempted or refunded under any other existing scheme. The scheme is for making Indian products cost competitive and to create a level playing field for them in the global market.[10] Though, the scheme came into effect from January 1, 2021 (PIB, 2021), as of June 2021, the remission rates and guidelines for the scheme are yet to be announced, and MSMEs have to deal with the related uncertainties.[11] Furthermore, Foreign Trade Policy 2020-2021 which was earlier supposed to be implemented in April 2021 will now be implemented in September 2021,[12] and the interviewees were not aware of the incentives that it is likely to offer. They expressed concerns that when business needs support, policy supports are either announced or not implemented on time or the implementation is deferred.

There is growing trade protectionism, globally and in India, which has been accentuated by the pandemic. There are sudden increases in tariffs and non-tariff measures leading to higher input costs. For example, there are issues in imports of raw materials like steel which is a key input into the engineering sector. Some of the import controls in the FY 2020-2021 are presented in Box 1, due to which the price of steel in India has increased by 50 per cent in 2020 while the rise has been around 20 per cent globally. This has adversely impacted MSMEs in the engineering sector and reduced their global competitiveness. 75 per cent of MSMEs said that the Bureau of Indian Standards (BIS) are becoming more difficult to abide by, at the same time the government does not offer enough training and information on the standards of key export markets which are offered by other countries. 80 per cent felt that import controls for raw materials and intermediary products will adversely impact exports. Further, tariff increases will make it difficult for India to sign trade agreements with key export markets like the USA or the European Union (EU).

[10](September 21, 2020) India: RoDTEP Scheme Vs. MEIS Scheme: Fact Sheet. *Mondaq*. Retrieved from: https://www.mondaq.com/india/tax-authorities/986370/rodtep-scheme-vs-meis-scheme-fact-sheet (last accessed July 9, 2021)

[11](June 07, 2021) RoDTEP: Rates for export promotion scheme likely to be announced in 10 days, says FIEO, *Financial Express*. Retrieved from: https://www.financialexpress.com/economy/rodtep-rates-for-export-promotion-scheme-likely-to-be-announced-in-10-days-says-fieo/2266878/#:~:text=The%20GK%20Pillai%20panel%20was%20tasked%20with%20rates,cent%20of%20the%20free-on-board%20%28FOB%29%20value%20of%20exports. (last accessed July 9, 2021)

[12](31 March 2021) Foreign Trade Policy 2015-20 Extended for 6 Months till September 2021, *Ministry of Commerce and Industry, Government of India*. Retrieved from: https://pib.gov.in/PressReleaseIframePage.aspx? PRID=1708765#:~:text=Posted%20On%3A%2031%20MAR%202021%207%3A05PM%20by%20PIB,and%20was%20extended%20thereafter%20upto%2031st%20March%2C%202021.(last accessed July 9, 2021)

Box 1: New Import Regulations for Steel: A Concern for MSMEs in the Engineering Sector

- Under the Custom (Administration of Rules of Origin under Trade Agreement) Rules (CAROTAR, September 2020), importers claiming a preferential rate of duty under respective trade agreements have to provide additional origination criteria in addition to a Certificate of Origin, such as regional value content and product specific criteria. This is an additional documentation requirement, and the onus of verification falls on the importer. While importers can provisionally clear the goods during the process of verification on payment of a security, the form of payment of the security has not been clarified. It states that the importer may consider requesting Customs authorities to accept security in the form of a provisional duty bond or a bank guarantee. However, MSMEs find it difficult to obtain bank guarantees and hence face issues in clearing the goods.
- India has imposed an anti-dumping duty on flat rolled steel products that are plated or coated with alloy of aluminium and zinc originating in, or from China. The duty is in the range of US$13.07-173.10 per tonne for 5 years.
- The Directorate General of Foreign Trade (DGFT) Notification No. 33, September 28, 2020 requires importers to compulsorily register in the online system – Steep Import Monitoring System (SIMS) for iron and steel, and the registration number will have to be entered for clearance of the consignment by Customs. The registration fee is ₹ 1 per thousand (subject to a minimum of ₹ 500) and a maximum of ₹ 0.1 million on aggregate cost, insurance and freight value of imports. This is an additional cost.
- Further a steel quality control process through the BIS is now in place. BIS, due to shortage of staff, takes a long time to clear and give a go-ahead.
- The DGFT office memorandum dated June 24, 2020, stated that 6 steel producers, namely Steel Authority of India (SAIL), Rashtriya Ispat Nigam Limited (RINL), Tata Steel Limited, JSW Steel Limited, and AMNS would supply steel to MSME exporters of Engineering Exports Promotion Council (EEPC) at export parity price. However, this scheme has rigid conditionalities, such as (a) supply of merely 4 products to begin with (hot rolled coil, wire rods and alloy bars) and (b) the total quantity commitment from the steel producers has a maximum limit of 1 million ton per year, irrespective of the number of products. Due to these restrictions, the KIIs found that none of the EEPC members have shown interest to avail this benefit as of December 3, 2020.

Source: Compiled from KII inputs

The government is trying to generate a database for MSMEs through the Udyam portal, which will allow the enterprises to avail benefits such as interest rate subsidy on bank loans, collateral free loans from banks and ease of obtaining registrations.[13] The government is also planning to launch a global market intelligence system in various languages and establish 100 export facilitation councils to increase exports. Efforts are being taken to set up an MSME Gateway to serve as a unique digital platform for Indian MSMEs to conduct business in other countries and attract foreign direct investment. Additionally, the government also introduced few interventions due to COVID-19. For example, releasing MSME receivables from the government and central public sector enterprises (CPSEs) within 45 days, promoting e-market linkages for MSMEs as a replacement for trade fairs and exhibitions, using fintech to enhance transaction-based lending using the data generated by e-marketplaces.[14] All interviewees welcomed these measures.

Focusing on the adaptation of 4th IR technologies, prior to COVID-19 many MSMEs were evaluating the cost and benefits of technology upgradation. While most agree that modern technology will improve production process and efficiency, there is an associated cost of technology upgradation and training. Around 90 per cent of interviewees said that it is not easy for them to go online as there is limited support from the government for automation and technology upgradation. Modern technology will also need skill upgradation. With the onset of COVID-19, more and more companies and business enterprises are resorting to digital platforms and are evaluating the ways and means to automate to ensure social distancing at workplace. However, the KIIs found wide discrepancies in technology adoption due to lack of digital access, insufficient resources and knowledge to innovate, lack of requisite skills, amongst others. The usage of 4th IR technologies is limited (less than 5 per cent of the MSMEs use/plan said that they plan to use artificial intelligence or machine learning in the next 2 years). Further, to change the entire manufacturing process from a labour-intensive process to a capital incentive process at a time of business slowdown has been a challenge for most of the interviewees. Due to COVID-19, the funding under schemes targeting technology upgradation and competitiveness, like financial support to MSMEs in Zero Defect and Zero Effect (ZED) Certification also saw a decline (Ministry of MSMEs, 2021) and survey participants pointed out that there is a lack of

[13](March 24, 2020) 16 Benefits of Udyam Registration, *MSME Registration Private Consultancy Services.* Retrieved from: https://msmeregistrar.org/blog/benefits-of-udyam-registration (last accessed July 9, 2021)

[14](May 19, 2020) AatmaNirbharBharatAbhiyan, *Transforming India, Government of India.* Retrieved from: https://transformingindia.mygov.in/?sector=MTA3Mw%3D%3D&type=en#scrolltothis(last accessed July 9, 2021)

funding from the government for modern technologies. While many of the KII participants opined that e-commerce platform is necessary, there are very few business-to-businesses (B2B) reliable e-commerce platform in India. During COVID-19, policies to promote digital payments and transactions were also introduced. Bank charges for digital trade transactions for trade finance consumers were reduced, authorised payment system operators and participants were advised to undertake targeted multi-lingual campaigns to educate their users on safe and secure use of digital payments (RBI, 2021). However, a number of companies faced issues in cross-border digital transactions and two of them lost their money in such transactions with clients whom they met through social media platforms. Hence, more than 50 per cent of survey participants expressed concerns about online contracts and financial transactions.

With adaptation of digital technologies, there is also a need for companies to create data storage facilities and store critical data. Some interviewees felt that it is difficult for SMEs to store, manage, analyse and transform data into insights for any decision making within the enterprise.

Regarding the revised MSMEs definition of July 1, 2020, 60 per cent of the KII participants opined that this will have a negative impact on the MSME sector, as larger companies will be incorporated under this definition, and actual MSMEs will fall in the micro-category, which offers no special incentives; but 40 per cent welcomed this change citing increasing transparency associated with the incorporation of turnover as one of the criteria of classification (earlier the criteria only included investment in plant and machinery).

6. Policy Recommendations and the Way Forward

The Indian economy is experiencing a growth slowdown due to the COVID-19 pandemic and there is no doubt that the MSME sector must grow to bring back inclusive and sustainable growth and create employment. There is need for reforms and interventions to help SMEs integrate into the GVCs and to enhance their exports. Indian SMEs are capable to produce a wide range of products and services. The KIIs found that Indian SMEs will need support in terms of knowledge and finance, for technology upgradation, skill upgradation and marketing. Tax incentives can be provided to acquire or upgrade IT hardware and software. Barriers to their global market integration like access to raw materials and intermediate products along issues related to finance and technology upgradation must be addressed. There is a need to provide both fiscal and non-fiscal support for research and development in order to develop products and technological capabilities of the SMEs. In doing so, first, the targeted schemes for SMEs should be implemented properly and should ensure maximum coverage. There is need to have more targeted schemes for MSME addressing their critical issues like financial access or access to technology. There is also a need to monitor the utilisation and success of the different schemes and policies. Second, there is a need to lower the cost of borrowing and interest rates can be lowered for the MSME sector. The government should focus on the specific needs of the MSMEs with respect to access to finance, which includes financing gaps in working capital, access to funds at lower interest rates, etc. Government should encourage banks and fin-tech companies to enter into partnerships to develop innovative non-collateral based financial packages and processes for digital financial inclusion of MSMEs. There is scope for traditional financial service providers to partner with technology companies for smart use of data and development of innovative financial services, which may be explored. There is also a need to increase access to digital financial services by development of an interoperable digital payments' infrastructure and development of hybrid and flexible digital products customised to the needs and requirements of the MSMEs.

Third, support can be provided for technology upgradation and automation. MSMEs have to spend on skilling of workforce and part of this can be subsidized. It is also necessary to help SMEs train their workforce in digital skills. SMEs must be integrated to e-commerce platforms for global markets. The issues related to integration in e-commerce platforms and online business needs to be addressed.

Fourth, there is need for data driven policymaking. The government is collecting a lot of data on MSMEs through various portals; however, there is limited information on their performance. There is need for longitudinal data collection and reporting of the performance of MSMEs in trade and in areas like digital inclusion and technology upgradation. For this, regular surveys can be conducted to understand the status, and the concerns and needs of MSMEs. This will help the government to provide targeted solutions.

Fifth, in a difficult time of growing protectionism, there is need to build capacity and awareness among SMEs about the trade agreements, standards and processes and requirements of importing countries. It is important to do research on how other countries have used trade agreements for the benefit of their SMEs. Sixth, the issues faced by MSMEs differ by product categories and hence sectors-specific needs of MSMEs have to be identified. Government has now created a data base of SMEs. This may be used for creating a MSME trade centre and trade related support system like an online 24X7 helpline.

To conclude, in an era of growing protectionism, most of survey participants did not ask for market protection or higher tariffs. They wanted support (both fiscal and non-fiscal) to become competitive and to integrate in the global value chain. They showed a keen interest to diversify their export markets and acquire new clients. If the recommendations in this article are implemented it will lead to growth, enhance exports, create jobs and lead to investment and innovation. Reaching a target of US$ 5 trillion economy by 2024-25, can be possible if the MSME sector bounces back and integrates into the global market.

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COVID-19 and the Changing Profile of ASEAN-India Economic Relations

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Abstract

Association of Southeast Asian Nations (ASEAN) and India are bound together by their shared history and culture. Relation with ASEAN is one of the cornerstones of India's foreign policy. Trade between India and ASEAN in recent months has faltered due to the COVID-19 pandemic and trade policy uncertainties, but there is still untapped potential for further enhancing ASEAN-India trade. The pandemic has also created new opportunities for enhancing services trade between India and ASEAN, which India could leverage with suitable proactive steps. Moving from cooperation to integration, there is a need to jointly address challenges to strengthening the partnership between ASEAN and India in various areas. This article examines the dimension of ASEAN-India relations, the challenges they bring, and the regional cooperative mechanisms that could provide solutions to them.

Keywords: ASEAN, India, FTA, Trade, Integration

1. Introduction

The world is facing unprecedented challenges. The ongoing COVID-19 pandemic has severely impacted lives and livelihoods, basic well-being, and the productivity of countries across the world. Some of the major challenges resulting from the pandemic are rising poverty, falling health and nutrition, declining trade and investment flows, disruption of supply chains, and travel and tourism – within and between the countries. The cumulative loss in global output relative to the pre-pandemic projected path is forecasted to grow from US$ 11 trillion over 2020-2021 to US$ 28 trillion over 2020-2025 (IMF, 2020). Faced with the greatest challenges since the Great Depression of the

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[1] *This article is developed based on the Introduction chapter of the ASEAN-India Development and Cooperation Report 2021, edited by the authors of this article, and the AIC Commentary # 13, written by the first author. Views are authors' own. Usual disclaimers apply.*

1930s, the need for stronger multilateral cooperation is, therefore, felt *sine qua non* to not only contain the pandemic and mitigate its social and economic effects but also bring back the world economy to the growth path. It also underlines the need for deeper cooperation between ASEAN and India in search of collective solutions to these challenges and the collective path for a resilient recovery. In this context, this article examines the dimension of ASEAN-India relations, the challenges they face, and the regional cooperation mechanism that could provide solutions to the challenges.

The article is structured as follows. The next section provides a background of the ASEAN-India relationship; Section 3 presents the economic linkages in terms of trade and investment between the two. Section 4 focuses on certain issues and challenges and suggests some possible ways to overcome them in future. Section 5 elaborates on the implications of some trade facilitation initiatives, followed by the Indo-Pacific vision and the plan of action in the next section. Finally, Section 7 concludes the article.

2. ASEAN-India Dialogue Partnership

ASEAN and India are bound together by their shared history and culture. Relationship with ASEAN is one of the cornerstones of India's foreign policy. There has been steady progress in the ASEAN-India relation since the Look East Policy (LEP) was initiated in 1992. India became a sectoral dialogue partner of ASEAN in 1992. In 1996, this was upgraded to a full dialogue partnership. In 2002, India became a summit level partner of ASEAN. These political level interactions are further strengthened through the senior officials' meetings, as also specialised working groups in the various functional areas. At present, there are more than 30 senior official level interactions between India and ASEAN, cutting across all the sectors, and an annual summit of the Heads of the countries.

India's relations with ASEAN have also been the core foundation of India's Act East Policy (AEP). India has been increasingly engaged with ASEAN. There has been deepening of partnership between India and ASEAN across the three pillars, namely, politico-security, economic and socio-cultural. The combined region of ASEAN and India represents a total population of 1.8 billion, which is a quarter of the global population, and with a total GDP of over US$ 3.8 trillion, the region presents one of the largest economic spaces in the world.

Over time, the ASEAN-India partnership has crossed many milestones. In 2018, ASEAN and India commemorated 25 years of dialogue partnership and 15 years of summit level partnership. The Commemorative Summit was attended by the leaders from all the 10 ASEAN countries and came out with the *Delhi Declaration*, the guiding roadmap of the ASEAN-India partnership. In 2022, ASEAN and India will complete their three decades of dialogue partnership.

Today, the ASEAN-India partnership is the foundation of the Indo-Pacific. India's Act East is becoming Act Indo-Pacific (see for example, De (2020)). The Indo-Pacific has obtained renewed vibrancy when ASEAN, in June 2019, and India, in November 2019, came out with their respective Indo-Pacific visions, namely, the ASEAN Outlook on Indo-Pacific (AOIP) and the Indo-Pacific Oceans Initiative (IPOI), respectively. In the same year, India's offer of 1000 scholarships to do Ph.D in Indian Institute of Technology (IITs) was introduced, adding further momentum to the ASEAN-India relation and the Indo-Pacific. Besides bilateral assistance, financial support has been provided to ASEAN countries through (i) ASEAN-India Cooperation Fund, (ii) ASEAN-India S&T Development Fund, and (iii) ASEAN-India Green Fund.

3. Reinforcing Trade and Investment Relations

While the initial months of the COVID-19 pandemic witnessed a deceleration of trade between ASEAN and India, India's engagements with ASEAN nations in coping with the COVID-19 challenges have paved the way for friendship, good neighbourliness, peaceful co-existence and prosperity in the region.[2] Also, the future looks promising as there is a clear sign of revival of trade in goods between ASEAN and India in later months.

Since the free trade agreement (FTA) in goods came into effect between ASEAN and India in 2010, the trade between them has almost doubled to reach over US$ 87 billion in 2019-20 and then declined to US$ 79 billion in 2020-21 due to pandemic-driven economic slowdown[3]. ASEAN is currently India's fourth-largest trading partner, and India is ASEAN's seventh-largest trade partner. Bilateral trade between ASEAN and India presently covers almost 11 per cent of India's global trade, marginally improved by 1 per cent between 2010-11 and 2019-20 (Table 1). Adding China, Japan and Korea in it, countries falling under the coverage of Act East Policy (AEP) contribute to about one-third of India's global trade. Driven by imports, India's trade with ASEAN has grown faster than India's trade with the world. India faces significant non-tariff barriers in ASEAN that also limit its export with the ASEAN. Although trade growth both in India and ASEAN, in recent months has faltered due to the COVID-19 pandemic and the trade policy uncertainties, there is still untapped potential for further enhancing ASEAN-India trade.

In per capita terms, for each US$ 100 global export by India, US$ 10.56 came from ASEAN in 2019, increased marginally between 2004 and 2010, the period which witnessed relatively higher engagement between ASEAN and India (Figure 1). In the

[2]Chapter 10 of the AIDCR 2021 (AIC-RIS, 2020)

[3]Besides a Regional FTA, ASEAN Countries and India Have Several Bilateral FTAs. Refer Appendix 1.

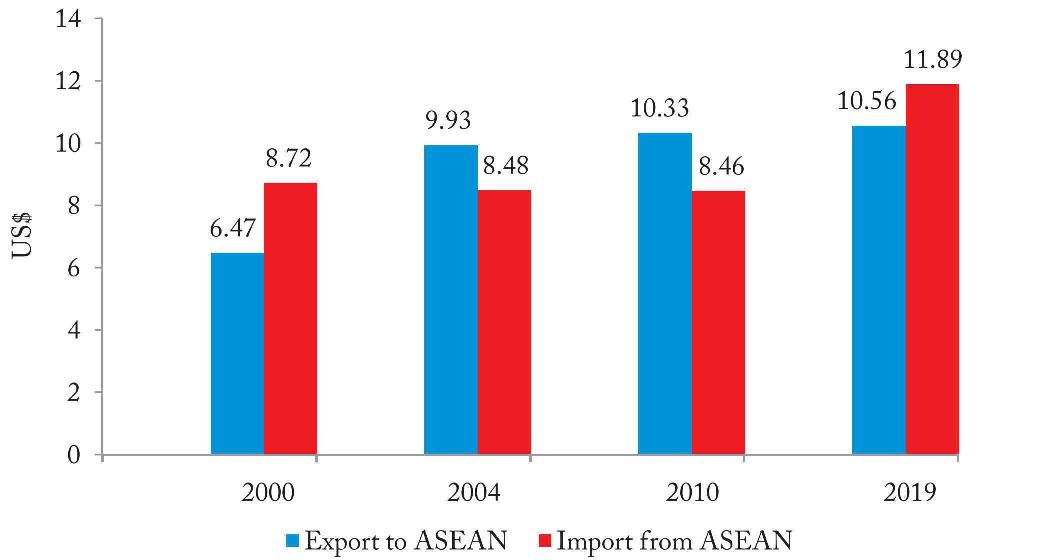
Table 1: India's Trade with ASEAN

	2010-2011			2019-2020			Growth*	
	To ASEAN	To World	Share of ASEAN in World	To ASEAN	To World	Share of ASEAN in World	ASEAN (2010-11 – 2019-20)	WORLD (2010-11 – 2019-20)
	(US$ billion)		(%)	(US$ billion)		(%)	(%)	
Export	25.63	249.82	10.26	31.55	313.36	10.07	2.10	2.29
Import	25.80	288.37	8.95	55.37	474.71	11.66	7.94	5.11
Total	51.43	538.19	9.56	86.92	788.07	11.03	5.39	3.89

Note: * Compound Annual Growth Rate (CAGR)

Source: Author's Calculation Based on Export-Import Data Bank, Department of Commerce, India

Figure 1: What Does India's US$ 100 Trade per Capita Mean to ASEAN-India Trade?



Note: *Taken in US$ per Capita

Source: Author's Calculation Based on IMF's DOTS and the World Bank's World Development Indicators (WDI)

case of imports, US$ 11.89 came from ASEAN for each US$ 100 import by India from the world. The trend reiterates India's import dependence but also shows much

Table 2: Trends in India's Trade and Investment with ASEAN per Capita

Year	India's per Capita FDI Inflows from ASEAN	India's per Capita FDI Outflows to ASEAN	India's per Capita Export to ASEAN	India's per Capita Import from ASEAN
	(US$)			
2010	1.26	10.28	18.65	24.05
2011	1.31	6.34	28.81	32.36
2012	1.20	3.59	26.47	33.38
2013	1.72	3.81	27.47	32.96
2014	3.01	5.28	24.13	34.42
2015	4.89	4.56	20.22	31.70
2016	12.07	3.84	20.12	28.94
2017	8.27	4.35	26.48	33.84
2018	12.05	2.21	26.67	42.31
2019	7.94	3.27	25.10	41.75

Source: Authors' Calculation Based on IMF's Direction of Trade Statistics (DOTS), ASEAN Stat, RBI and World Bank's WDI

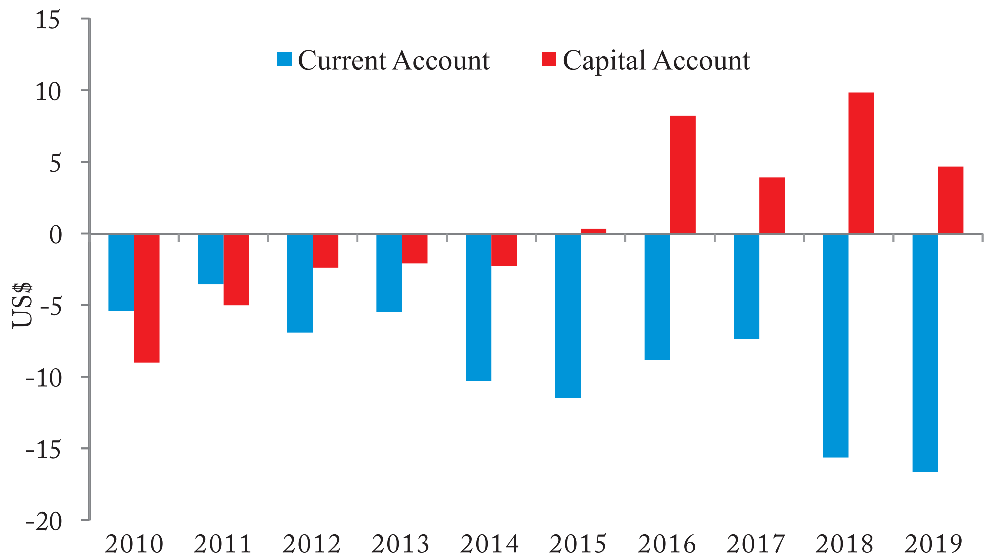
room to enhance trade between ASEAN and India.

The intensity of engagement in trade and investment can also be judged from the trends presented in Table 2. India's export and import with ASEAN in per capita terms have increased since 2010 except for the later years when the trade growth slowed down amid persistent trade tensions and moderation in global economic growth.[4] The policy uncertainties and negative effects arising from anti-globalisation measures have also affected bilateral foreign direct investment (FDI) flows between ASEAN and India.[5] What follows is that India's widening deficit in current account with ASEAN but a fluctuating surplus in the capital account signal a shift is needed in India's economic policy towards ASEAN (Figure 2). As of 2019, the net effect of both current and capital accounts is not in favour of India. To convert the deficit into a surplus, India may strive for bigger ASEAN markets seeking greater capital and trade.

[4]Several Asian Economies Recorded Slower Export Growth Due to Weaker External Demand from Developed Countries and the Potential Negative Effect from Persisting Trade Tensions (ADB, 2019)

[5]Chapter 4 of AIDCR 2021 (AIC-RIS, 2020)

Figure 2: India's Surplus in Capital Account and Deficit in Current Account with ASEAN*



Note: *In per Capita Term

Source: Calculated by Authors Based on IMF DOTS and Balance of Payments (BOPS), and RBI

The pandemic has impacted the trade flows between ASEAN and India. The trade forecast reported in ASEAN-India Development and Cooperation Report (AIDCR) 2021 (AIC-RIS, 2021) indicates that the ASEAN-India trade in goods is likely to decline from US$ 90 billion in 2019 to US$ 84 billion in 2021. However, a sharp rise in ASEAN-India trade is possible along with a rebound of ASEAN economies and India from the current global crisis. One of the key challenges to India's export in this uncertain time is, therefore, to maintain the competitiveness in the global and regional markets by improving trade facilitation not only at home but also with the trade partners (Raychaudhuri *et al.*, 2021). Along with it, upgrading the ASEAN-India FTA (AIFTA) and its effective utilisation may perhaps add the required momentum to the bilateral trade flows while promoting sustainable and inclusive growth for both ASEAN and India.

4. Opportunities, Challenges and How to Deal with Them

4.1 Connecting with Value Chains

Another great opportunity to scale up the ASEAN-India engagements is the development of value chains. The COVID-19 pandemic has disrupted the supply chain networks and the supply of intermediate inputs and final goods across the world has been distrusted disproportionately. The impact of supply chain disruptions is multidimensional due to the high degree of integration and interdependence of value chains across the countries.

Current engagement in value chains between ASEAN and India is not substantial; about US$ 5.8 billion was the total trade in P&C between them in 2018 (Table 3). India's parts and components (P&C) exports to and imports from ASEAN are close to 10 per cent, and India's P&C trade with major ASEAN countries are Singapore, Thailand, Malaysia, Indonesia and Vietnam. In particular, ASEAN and India have substantial intra-sectoral level trade in P&Cs in the sectors like electrical equipment, industrial machines, road vehicles, power generating machines and telecommunications. In addition, India also has a strong regional value chain base in the automobile sector with ASEAN countries such as Indonesia, Thailand and Malaysia. India also has high potential in some of the sectors which are interdependent with the services sector such as ICT, R&D, pharmaceuticals, etc. Besides, some of the sectors that hold promise in value chains between ASEAN and India are electrical equipment, industrial machines, road vehicles, power generating machines and telecommunications, etc. An innovative idea like the Project Development Fund (PDF) is what ASEAN and India need more. To facilitate investments from India to CLMV countries (Cambodia, Myanmar, Lao PDR and Vietnam), a Project Development Fund has been announced by India, but it is yet to be fully utilised.

As China's economy loses momentum, investments from China are shifting abroad to cut operating costs, save from business uncertainties and search for new markets. Countries like India, Myanmar, Bangladesh, Vietnam, Thailand and the Philippines look like attractive alternatives. Relocation of industries away from China would create a new wave of industrialisation. ASEAN and India can leverage the emerging scenario and

Table 3: India's Trade in Parts and Components (P&C) with ASEAN

	India's Export of P&C to ASEAN	India's Import of P&C from ASEAN	Share of India's Exports of P&C to ASEAN in World	Share of India's Imports of P&C from ASEAN in World
	(US$ Million)	(US$ Million)	(%)	(%)
2006	700.75	1814.42	2.9	5.5
2018	2069.1	3817.13	8.1	7.4

Source: ASEAN-India Centre, Research and Information System for Developing Countries (AIC-RIS) (2020) support each other to build new and resilient supply chains. However, to explore this opportunity, ASEAN and India must upgrade the skilling, improve logistics services and strengthen the transportation infrastructure.

Investment reform is another challenge for both India and ASEAN. To deal with such a challenge, particularly in this pandemic time, ASEAN and India should cooperate towards designing appropriate policies, simplifying investment regimes and streamlining investment processes to further strengthen the value chain and investment linkages. India's 'Atmanirbhar Bharat' or 'Self-Reliant India' Mission offers investment opportunities to ASEAN countries.

Business and economic cooperation between India and ASEAN in areas of mutual interest such as financial technology (FinTech), connectivity, start-ups, and innovation, empowerment of youth and women and the development of Micro Small and Medium

Enterprises (MSMEs) is an important driver to move up the ASEAN-India relation in the higher plateau.[6]

4.2. Dealing with Non-Tariff Measures (NTMs)

While the trade between ASEAN and India has grown over time, a large part of the trade potential remains unrealised due to high trade costs in the form of slow and unpredictable goods delivery, cumbersome customs procedures, non-tariff measures (NTMs), etc. The complexities and the application of NTMs have been increasing consistently over time. Most often NTMs are less transparent and add to the costs of doing business in the importing country. Exporters often consider NTMs as barriers to trade since compliance to standards makes additional cost and time to export, which also negatively affect the competitiveness of the products of the exporting countries.

Although NTMs act as barriers to trade, it also maintains quality and health standards with a legitimate purpose, to protect domestic food and environment by imposing several technical measures. This is highly apparent during the current COVID-19 pandemic where several countries including ASEAN and India have notified several NTMs related to COVID-19 to protect the health and quality standards of the products procured to meet domestic consumption. NTMs, however, have serious implications on trade and it is difficult for the firms, particularly Small and Medium Enterprises (SMEs) to cope up with the change in the measures both in the short and long terms due to lack of data availability, complexities and policy sources from various government regulatory agencies, etc.

ASEAN and India should identify the potential products that are of interest and should build cooperation to work in areas where there are difficulties in recognising or

[6]Chair's Statement of the 16th ASEAN-India Summit, held on 3 November 2019 at Bangkok

validating certificates of testing and inspections and strengthen the use of international standards, mandatory documentation of equivalence procedure and adopting Codex consignment rejection guidelines, standards in English language and agreement on self-certification. Indian accreditation authorities should enter into mutual recognition agreements (MRAs) with similar agencies in ASEAN countries. This would facilitate lower transaction costs as well as hassle-free trade and help to strengthen production networks across borders between ASEAN and India. ASEAN has initiated several work programmes to improve the NTMs and constituted an ASEAN Consultative Committee on Standards and Quality (ACCSQ) to undertake the harmonisation process and to implement mutual recognition agreements (MRAs) with international bodies. Streamlining NTMs through harmonisation of standards and regulations and mutual recognition of conformity assessment and reduction of border procedures is important for facilitating preferential market access between ASEAN and India. Only then any regional trade agreements can promote trade and investment activities.

4.3. New Frontiers and High-Value Connectivity

Compared to what it was in 2010, the connectivity agenda between ASEAN and India now covers not only hard multimodal connectivity but also the soft side of connectivity such as trade facilitation. In particular, maritime connectivity has gained immense importance in the backdrop of the Indo-Pacific maritime domain.

ASEAN-India connectivity could serve as a basis for Indo-Pacific infrastructure cooperation. Completion of the India-Myanmar-Thailand Trilateral Highway and its extension to Cambodia, Lao PDR and Vietnam is pivotal to the next phase of ASEAN-India relations. Post-COVID-19, restoring connectivity and resilience of supply chains will be the key to ASEAN-India economic integration, particularly the development of India's Northeastern region. The ASEAN-India Plan of Action (POA) for 2021-2025 recommends for transforming Trilateral Highway into an Economic Corridor. The supply chain resilience initiative (SCRI) between India, Japan and Australia has been launched recently. The SCRI is likely to add to the development of the economic corridor between ASEAN and India. It may also facilitate investments as well as spur economic growth in the region which is vehemently needed in this post-COVID-19 period. ASEAN-India connectivity could serve as a basis for Indo-Pacific infrastructure cooperation.

5. Implications of Select Trade Facilitation Initiatives

5.1 Trade Facilitation and Transit[7]

[7] De (2021)

ASEAN has launched the much-needed ASEAN Customs Transit System (ACTS) on 30 November 2020. The prime objective of ACTS, among others, is to reduce intra-ASEAN transaction costs and time and promote trade and investment. The launch of ACTS is set to boost the overland trade between ASEAN and India. The ACTS was launched at a time when ASEAN countries have been hit hard by the Coronavirus pandemic and there has been a sharp rise in trade costs due to increased border controls and associated supply chain disruptions.[8] The timely launch of ACTS may help the ASEAN to bring back the growth in trade and strengthen the revival of the regional economies.

To avoid documentation and multiple customs declarations and in recognition of the ASEAN-wide single customs market, the ACTS aims to provide registered traders with a seamless transit without any repeated Customs declarations or change of vehicles at each border overland. In other words, ACTS provides a single transit journey on a point to point basis across the participating ASEAN countries with a single truck, a single Customs declaration and a single bank guarantee. Another objective is to improve the prevention and detection of smuggling and fraud. ACTS has been developed to help realise the ASEAN goals of reducing trade transaction costs by 10 per cent and doubling intra-regional trade by 2025[9]. It is a joint effort between Customs and Land Transport authorities.

In this challenging and uncertain time, trade has been identified as *sine qua non* to save lives and livelihoods[10], and according to UNCTAD (2020), "Countries can leverage trade facilitation to defeat the COVID-19 pandemic". Digital and sustainable trade facilitation has been regarded as essential to strengthen the country's global competitiveness[11]. ACTS is thus having strong catalytic power not only to facilitate trade between ASEAN and India but also to improve the competitiveness.

ASEAN has progressed well in trade facilitation. For example, the ASEAN Single Window (ASW) has been implemented partially, and a full ASW is expected to be launched in 2021. ASEAN has already introduced the ASEAN Solutions for Investment, Services and Trade (ASSIST) and ASEAN Authorized Economic Operator (AEO). In 2020, ASEAN has introduced the ASEAN Self-Certification of Origin. ACTS

[8]The OECD commented: "Rising Trade Costs – from Transport, Logistics and Supply Chain Disruptions, as Well as Additional Border Controls and Documentation Requirements – Act as Additional Brakes on Both Trade Flows and the Global Economy" (OECD, 2020).

[9]See for Example, ASEAN Customs Transit System, Available at https://acts.asean.org/

[10]OECD (2020)

[11]AIC-RIS (2020)

is found to be crucial to ensure the faster movement of goods and services, and it has strong implications on neighbouring non-FTA members like India and offers a greater scope for regional cooperation.

Two common measures undertaken by most of the ASEAN countries and India in 2020 in coping with the pandemic are (i) establishment of trade information portals to add further transparency and ease of trade by simplifying and explaining procedures and processes; and (ii) expedited customs clearance and release of goods in combating the spread of the Coronavirus pandemic. ASEAN's ACTS and India's Single Window Interface for Facilitating Trade (SWIFT) are meant to restore trade transparency, thereby improving the country's competitiveness globally. While both partners have been trying to strengthen the value chains, an enhanced partnership between them is needed to improve the supply chain resilience by linking India with ACTS. The following observations are worth noting.

First, given that Myanmar is going to join ACTS by 2021, it would be wiser to link up with ACTS which will then provide seamless connectivity between India and ASEAN. The Trilateral Highway (TH) between India, Myanmar and Thailand is coming up fast and a Motor Vehicle Agreement (MVA) between them is being negotiated. Joining the ACTS will help India in reducing transaction costs and time, and improve the prevention and detection of smuggling and customs fraud. A single transit between India and ASEAN will help overcome the deficiencies in trade preferences that India faces with ASEAN where multiple ASEAN countries get free access to the single Indian market. This single transit through ACTS will give India access to multiple ASEAN countries overland. India's largest trading partners in ASEAN are Indonesia (not yet a member of ACTS), Singapore (a member of ACTS) and Vietnam (a member of ACTS). Therefore, ACTS will help India to reach every ASEAN neighbours overland with a single vehicle, a single transit, a single bank guarantee and a single customs declaration. Nonetheless, this transit is not achievable through TH MVA or the World Trade Organization (WTO) Trade Facilitation Agreement (TFA).

Second, India's trade with ASEAN is mostly carried through the ocean, whereas the ACTS is only applicable in the case of road transportation at the moment. However, the ACTS is likely to be extended to other transportation modes such as railways, inland waterways, airways, and ocean transportation in future. At the same time, once the TH is opened for international cargo transportation, there is a high possibility of routing of current ASEAN-India trade from ocean to land. Therefore, joining the ACTS would help India (and also ASEAN) to enhance multimodal transportation and improve the feasibility of corridors, which are being planned between them.

Third, gains are very clear for India in terms of a door-to-door delivery, faster logistics services, minimal checks at borders, mutual recognition of driving licences, registration certificates and operator licences, and complete end to end transportation based on radio-frequency identification (RFID) and computerization of ACTS operations.

India is not the partner of the Regional Comprehensive Economic Partnership (RCEP). Therefore, joining the ACTS will help India to benefit from ASEAN-wide single customs and transit and vice versa. In addition, spillover benefits from reduced transaction costs and time are huge, particularly for India which suffers from high transaction time and costs at the border and behind the border. What next? First, India has to open a negotiation with ASEAN for joining the ACTS. The Ministry of External Affairs (MEA), India can lead the discussion with the ASEAN Secretariat. Second, India and ASEAN should mutually agree to amend the existing protocols, induct the designated routes and customs points in the ACTS schedule of routes and customs points, introduce a mutually recognised risk management system based on Authorised Transit Trader (ATT) scheme, vehicle inspection certificates and driving licences, etc. Third, completion of the TH and other overland transportation projects between ASEAN and India is needed before India joins the ACTS.

To conclude, the ACTS is going to be the game-changer in the post-COVID-19 period in ASEAN in strengthening trade and value chains. India being ASEAN's land and maritime neighbour, should explore the possibility of joining ACTS and identify how to leverage from the ACTS (and other trade facilitation measures) to deepen the ASEAN-India trade. The ACTS can play a vital role in promoting regional integration if India and ASEAN join hands to craft a visionary strategy. Effective implementation of ACTS will then strengthen the Indo-Pacific partnership.

5.2 E-Commerce and Digital Connectivity

Digital integration and adoption of new technologies have been the basis of the growth of India and the ASEAN countries in the era of the fourth industrial revolution (4IR). The two economies are emerging as fast adopters of digitalisation and some of the key drivers include favourable demographics, urbanisation, rising income levels, rising internet penetration, the proliferation of new technologies and digital tools, and availability of a skilled workforce. Today, India and the ASEAN are the fastest growing e-commerce markets, and the growth has been fuelled by the services sector liberalisation, penetration of broadband and smartphones, growth of startups, along with changes in consumer shopping habits and preferences. With the outbreak of the Coronavirus pandemic in 2020, the need for lockdown and social distancing has led to even faster adoption of e-commerce, which has now become an essential service. The pandemic has fasttracked the process of online delivery of services such as education and healthcare. The governments in India and ASEAN have implemented online clearance processes to help businesses.

Prior to the COVID-19 pandemic, India's digital economy generated around US$ 200 billion annually. This is likely to increase with the pandemic. One of the important benefits of digital connectivity and e-commerce channels is to link the small and medium enterprises (SMEs) to global markets at a low cost.

Today, India and ASEAN are at a difficult time when trade flows have reduced, and countries are facing a GDP slowdown and unemployment. As countries try to revive from the COVID -19, both the economies can leverage the digital and e-commerce initiatives that they have implemented or, are implementing to move towards a technology-driven economy. The growth of digital connectivity, e-commerce and startups creates opportunities for digital integration across India and ASEAN, leveraging on their mutual strengths. There is a need for addressing the domestic regulatory gaps and there is scope for enhancing cross-border regulatory cooperation.

While India and many ASEAN countries are today importers of digital products and services, they are fast developing their capabilities which will enable them to export in the future. Jointly, they can target third-country markets leveraging their mutual strengths. Governments can support private sectors through the right policy initiatives to grow, expand, export and improve efficiency and global competitiveness. The region has centers of technology and digital innovations and this will be the key driver to enhance GDP growth and create jobs in the post-COVID-19 period.

5.3 Other Issues

5.3.1. Scaling up People-to-People Linkages

Socio-cultural issues in ASEAN–India relations assume special significance. Socio-cultural cooperation is one of the important pillars of the ASEAN-India Strategic Partnership, which include human resource development, people-to-people contacts, education, health, biodiversity, climate change and disaster management. At the Commemorative Summit held in January 2018, the leaders of ASEAN countries and India underscored the importance of cultural relations in building an inclusive and progressive society. Shared historical ties, culture and knowledge have continued to guide the sustained interactions between India and Southeast Asia. Cultural links between India and Southeast Asia reflect the multi-cultural and multi-heritage tolerance society. Educational relation is one of the important areas of cooperation between ASEAN and India, which can take the partnership to a new height. Education and tourism are the two vital pillars of the people-to-people linkages between ASEAN and

India.

The present crisis caused by the COVID-19 virus has impacted the people-to-people linkages. Education and tourism are the two vulnerable sectors, which have faced severe downfall due to the ongoing pandemic. There is no denying that education and tourism are the next promising sectors, which can take the ASEAN-India relations to a new higher level in post-COVID-19. There are ample opportunities to scale up the activities in the education and tourism sectors. Both ASEAN and India shall facilitate accreditation of degrees and diplomas, and set up the ASEAN-India University Network (AIUN).

Apart from education, tourism also plays a significant role in connecting people of the region. It has been observed that Thailand and Singapore offer more preferred tourism destinations for Indian tourists than other ASEAN countries, while, ASEAN tourists prefer Buddhist circuits and cultural heritage in India. Both India and ASEAN shall work together to facilitate the people-to-people connectivity, particularly in the post-COVID-19 period. India and ASEAN shall undertake joint programmes to overcome the current challenges. Innovative programmes such as setting up AITF may help strengthen the tourism sector.

5.3.2. Dealing with Public Health and Traditional Medicines

Several countries of the ASEAN and India are grappling with a second wave of COVID-19 pandemic. Today's global health challenges call for an integrated approach and intensive collaboration between all partners. The COVID-19 has made it clear that collaboration is critical to fight the pandemic and achieve the health-related sustainable development goals (SDGs). ASEAN countries and India have reaffirmed their commitments for protecting the health of their people. Vaccine hesitancy has also emerged as a major hurdle in the low number of vaccinations in many ASEAN countries like Indonesia and Malaysia. The COVID-19 pandemic forces ASEAN and India to have stronger cooperation in the health sector. For example, cooperation in tele-medicine, vaccine production and provisioning, pandemic surveillance, genome sequencing, etc. can help the region in rebounding fast from the pandemic and ceasing the further mutation of the virus. Important issues in the developing world are procurement of vaccines and sharing the online portal for monitoring (e.g. CO-WIN) will certainly help countries to contain the spread of virus through better management.

ASEAN and India may consider encouraging the exchange of knowledge of traditional medicines, health professionals, testing kits, PPEs, medicines, etc. For example, the ASEAN-India Network of Traditional Medicines (AINTM) may be activated to take forward the cooperation in traditional medicine. Health ministers and officials of ASEAN and India may interact with each other regularly in order to provide collective assistance to fight against COVID-19 and the needed political direction. India may also explore offering Quick Impact Projects (QIPs) to the ASEAN countries related to public healthcare. ASEAN and India shall work together for sustainable health and community building. Perhaps, building a green strategic partnership between India and ASEAN may pave the way to better meet the SDGs.

6. Indo-Pacific Vision and Plan of Action

6.1 The Vision

The Indo-Pacific obtained renewed vibrancy when ASEAN, in June 2019, and India, in November 2019, came out with their respective Indo-Pacific visions, namely, the ASEAN Outlook on Indo-Pacific (AOIP), and, the Indo-Pacific Oceans Initiative (IPOI), respectively.

With the announcement of the AOIP and the IPOI in 2019, the Indo-Pacific has been imparted very significant international momentum and geopolitical traction. As an open global initiative, the IPOI draws on existing regional cooperation architecture and mechanisms to focus on seven central pillars that anchor the deeply interconnected areas of Maritime Security; Maritime Ecology; Maritime Resources; Capacity Building and Resource Sharing; Disaster Risk Reduction and Management; Science, Technology and Academic Cooperation; and Trade Connectivity and Maritime Transport. The AOIP and the IPOI demonstrate very substantive commonalities and greatly enhance the scope of cooperation, particularly in view of unfolding changes to the global order against the backdrop of the ongoing COVID-19 pandemic.

Even in this COVID-19 period countries of the Indo-Pacific have ample scope for further deepening their integration. Strengthening economic integration requires a shared strategic vision, political will, and strong commitment, which are the keys for the success of the Indo-Pacific. Without a doubt, ASEAN centrality would be a major driving force for speeding up cooperation within the Indo-Pacific. Multidimensional regional cooperation within the Indo-Pacific would not only foster economic relations but would, in addition, strengthen regional capacity, and enhance regional capability while dealing with the region's complex security challenges.

The Indo-Pacific has a significant role to play in building both the economic and security architecture of the region. Protecting marine resources, biodiversity, and developing adaptive and mitigative strategies to offset the deleterious effects of climate change, enhancing sustainable development, promoting connectivity, reducing marine pollution, promoting disaster-management and relief, information sharing, capacity building and capability enhancement, generating maritime domain awareness, developing quality infrastructure, increasing non-polluting maritime trade and transport, strengthening the digital economy, promoting energy cooperation, and facilitating maritime tourism, are just a few of the several areas that could be explored further through cooperation amongst the Indo-Pacific partnering countries.

There is a largely untapped opportunity for cross-border trade and investment across the Indo-Pacific region. Heterogeneity in the economic size and development in the region has thrown up several challenges, but these can be managed by consolidating the efforts of countries to mobilise the skills, financial and technical resources to stimulate growth and long-term development of the region.

The long-term funding and supply of quality infrastructure are the biggest challenges in the Indo-Pacific region. India's Security And Growth for All in the Region (SAGAR) and Indo-Pacific Ocean Initiative, Japan's Quality Infrastructure, ASEAN's Master Plan on ASEAN Connectivity 2025, the USA's Blue Dot Network, and other initiatives across the region, are all aimed at strengthening regional connectivity. There is a large potential to consolidate and mobilise financing for infrastructure projects across the region by developing a comprehensive financing scheme as well as creating a master plan for Indo-Pacific connectivity and building the needed institutions to drive its constituent programmes.

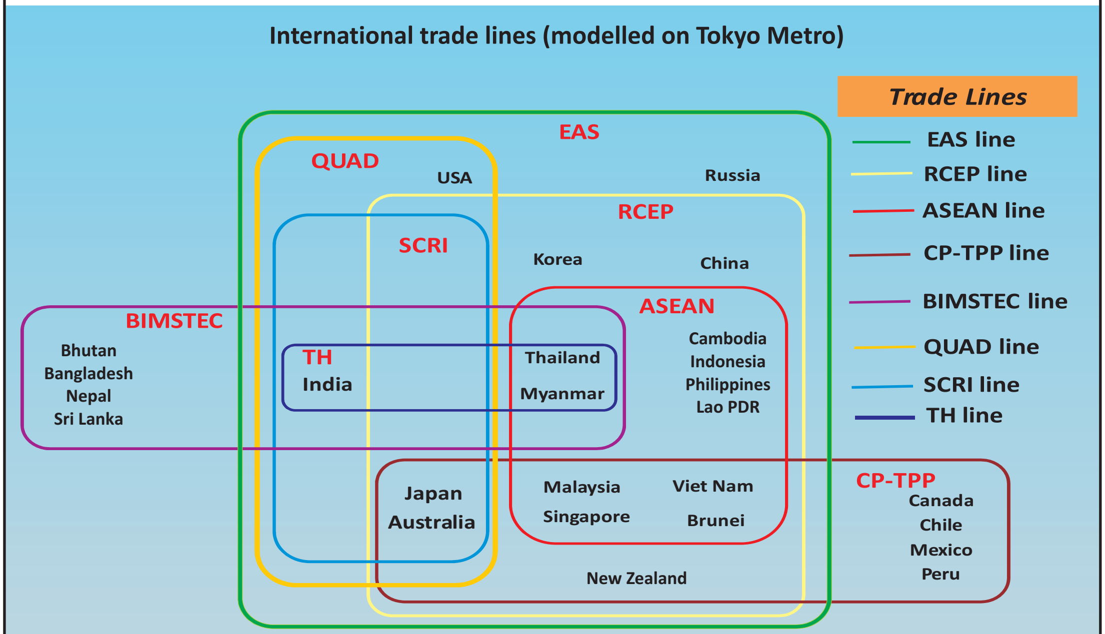
6.2 New Strategy to Re-energise the ASEAN-India Partnership

Deep integration between India and ASEAN is likely to provide a strong platform for the larger economic integration, particularly in the post-COVID-19. Nonetheless, the effective implementation of the Services and Investment Agreement, which were signed and ratified between India and ASEAN, are expected to raise the trade flow between the two partners where a large part of bilateral trade between them is yet to be unlocked. Engaging in new areas like energy, maritime safety and security, blue economy, digital connectivity and e-commerce will effectively respond to the growing demand for new partnerships. Any further efforts to deepen integration between India and ASEAN will, therefore, require collaboration and partnership by pooling our common interests as the global economy enters a new phase of integration. In such a testing time, working together to implement the plan of action (POA) (2021-2025) may help in achieving the roadmap for long-term ASEAN-India engagement.[12]

Countries prefer regional blocs, which not only facilitate economic integration but also promote non-economic areas of cooperation. The rise of Quadrilateral Security Dialogue (QUAD) or SCRI is thus welcomed by countries across the Indo-Pacific. In any way, be it economic or non-economic, regional cooperation will be the key to promoting

[12]Till Now, Three POAs Were Developed and Implemented: POA (2004 – 2010), POA (2010-2015), and POA (2016-2020)

Figure 3: Regional Blocs in Indo-Pacific



EAS – East Asia Summit; **SCRI** – Supply Chain Resilience Initiative; **QUAD** – Quadrilateral Security Dialogue; **BIMSTEC** – Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; **ASEAN** – Association of South East Asian Nation; **RCEP** – Regional Comprehensive Economic Partnership; **CP-TPP** – Comprehensive and Progressive Agreement for Trans-Pacific Partnership; **TH** – Trilateral Highway

Source: Authors

economic stability, competitiveness, growth and integration in the region. Horimoto commented, "Countries of the Indo-Pacific should strive for sharing the concept of multilateralism as the basic regional principle" (Horimoto, 2020). This is also not to be denied that a stronger ASEAN-India partnership would also strengthen multilateralism, and work towards building a common position, voice, and visibility in building Indo-Pacific.[13]

It seems mere FTA may not serve the purpose of the developing world. Today, it is possible for countries to decide the route to reach a destination when multiple lines are available. Figure 3 illustrates such a scenario, resembling Tokyo Metro lines. Like the Tokyo metro, which is a rapid transit system, higher trade ridership is achievable in this phase of consolidation.

[13]This Was Also Noted in the First Edition of the AIDCR 2015 (Refer, AIC-RIS, 2015)

7. Concluding Remarks

In this challenging time, ASEAN and India can play a major role in revising the global economy. On the demand side, better coordination can overcome low aggregate demand, which is a common challenge amid this global distress. The government's intervention is essential to help overcome low aggregate demand in this COVID-19 time, which would reduce unemployment and stimulate growth. But, if the ASEAN-India region is to grow further, it is essential to press ahead with the supply-side infrastructure development that underpins industrial activity such as Make-in-India, improves people's livelihoods and facilitates the distribution of goods – all within countries, and higher cross-border physical and digital infrastructure, trade facilitation through harmonisation of standards, more development aids through grants and lines of credit (LOCs), faster movement of goods and services – all between countries. Both the initiatives will pave the way for not just infrastructure development but also sustainable and resilient recovery, thereby fuelling global growth.

Finally, trade growth, both in India and ASEAN, in recent months have faltered due to the COVID-19 pandemic and trade policy uncertainties, but there is still untapped potential for further enhancing ASEAN-India trade. The pandemic has also created new opportunities for enhancing services trade between India and ASEAN, which India could leverage with suitable proactive steps.

Moving from cooperation to integration, there is a need to jointly address challenges to strengthening the partnership between ASEAN and India in various areas. Understanding the core challenges that result in deeper integration requires a better understanding of the underlying dimensions like enhancing macroeconomic and financial stability; trade integration and investment promotion; higher competitiveness and innovation; connectivity improvement; sharing resources and knowledge; supporting equitable growth; strengthening regional institutions; among others.

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Appendix 1

List of Trade and Investment Agreements signed between ASEAN and India

Sr. No.	Agreement	Date of Signed / Implementation
1	India – ASEAN Trade in Goods Agreement	13 August 2009 (signed), 1 January 2020 (implemented)
2	India – ASEAN Agreement on Trade in Services	1 July 2015 (ratified)
3	India – ASEAN Agreement on Investment ratified	1 July 2015 (ratified)
4	India – Thailand FTA- Early Harvest Scheme (EHS)	1 September 2004 (implemented)
5	India – Singapore Comprehensive Economic Cooperation Agreement (CECA)*	29 June 2005 (signed), 1 August 2005 (implemented)
6	India –Malaysia Comprehensive Economic Cooperation Agreement (CECA)	18 February 2011 (signed),1 July 2011 (implemented)
7	India-Indonesia Comprehensive Economic Cooperation Agreement (CECA)	Negotiation on-going since 2011

Note: "Two Reviews of CECA Completed and Third Review in Progress."

Source: Department of Commerce, Government of India

Hedge Fund: Can Alternative Investment Take Over the Popular Investments?

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Jay Tiwari is a Chartered Accountant with more than sixteen years of experience in Investment Banking and Financial Services (Hedge Funds). He is currently working as Senior Vice President - Co-Head of Hedge Fund Accounting, India with Apex Fund Services. He has worked with various financial services companies of repute in different countries across the world like India, Ireland, Singapore and the USA. In a conversation with IMI Konnect, he discusses Alternative Investment Funds and focuses on a number of pertinent issues related to investment in hedge funds in India.

IMI Konnect*: How is a hedge fund unique from other popular investment instruments?*

JT: Hedge fund is one of the alternative investment vehicles. By alternative we mean it is an alternative for the mutual funds. Mutual fund is a common investment vehicle, popular all across the globe including India. It is an alternative of the mutual fund as everybody cannot invest in a hedge fund. Hedge funds and private equity are both alternatives to the mutual fund. Basically, under alternatives there are both open ended and closed ended funds. Hedge funds are open ended while private equity is closed ended. Open ended funds are like hedge funds, fund of funds, managed accounts, family offices etc. Closed ended funds are like private equity funds, real estate funds where the investment timings are restricted. For open ended funds the timing is not restricted, you can enter any time and exit any time hence, the name open ended. But, in case of closed ended funds there is a stipulated time within which an investor has to enter and thereafter the door gets closed. Also, private equity investments are done for some specific timelines to achieve some objectives and after that it gets closed. But, in case of an open ended fund or hedge funds, the investment can continue till the time the fund manager wants. So the basic differences are that hedge funds are alternatives of other popular investments like the mutual fund.

Secondly, the mutual funds are highly regulated as the investors are the general public. When the money of general public is involved, the government or, the regulatory authorities are more concerned. On the other hand, hedge funds do not have much regulation. In the Indian perspective, SEBI, i.e. Securities and Exchange Board of India

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regulates the hedge funds. Globally, the biggest chunk of hedge funds is based out of United States. Almost, 70 per cent of hedge funds are globally based out of the USA. There, the U.S. Securities and Exchange Commission is the regulatory authority. But, in case of hedge funds there are not many regulations. Only thing is that the hedge fund companies need to file a return once a year with the regulatory authority. Apart from that they do not need to disclose the net asset value on a monthly basis or, daily basis, or disclose investor profile to any regulatory authority.

Third difference would be that investors in mutual funds are mostly general public while other investors can be like bank, pension funds etc. When it comes to hedge funds, the investors are very restricted. There could be big investors like foreign institutional investors (FIIs), banks, pension funds, endowment funds etc. But in case of individual investors, they are only accredited investors or, high net worth individuals (HNIs). In India, the minimum requirement for investment into hedge funds is ₹ 1 crore or, only individuals having net worth of ₹ 1 crore can invest in hedge funds. Globally, an investor needs to have minimum $1 million of net worth to be eligible to invest into the hedge funds.

IMI Konnect*: Hedge funds are different from mutual funds in more ways than one. Are there any operational differences?*

JT: Yes, differences are also there in terms of fees. Other fees are more or less similar. The only big difference is the performance fee or incentive fee. In case of mutual funds there is a management fee. Management fees are charged to take care of all the administrative costs of the fund. They do not charge employee salaries, rent etc. separately. They charge only 1-2 per cent of asset under management to cover the entire administrative charges of the funds. This is more or less similar for the hedge funds. The fees range from 0.5 per cent to 2 per cent on the total asset of the funds on an annual basis. But in case of hedge funds, the biggest difference is the incentive fee or, performance fee which is not there in case of most of the mutual funds. The incentive fee is charged on the profit of the fund. For example, if a fund started at $100 million and the value goes up to $110 million at the time of crystallization then the fund manager would be eligible for 20 to 30 per cent of $10 million as incentive fee over and above the management fee which is not there in case of the mutual funds.

Lastly, the difference lies in the tax perspective. From an Indian perspective, the market is not that mature when it comes to hedge funds. Hedge funds got approved to have their business in India only in 2012. So it is a growing market for hedge funds in India and we do not have very friendly tax rules for hedge funds because it just started. Any investment vehicle would need a partnership to get the money and invest into the market and that legal entity or, partnership firm is chargeable to taxes in India. Also, the investor's money is subjected to income tax in his personal tax file. So, that is something that the Finance Ministry needs to think about to get more investment into the hedge funds in India.

IMI Konnect*: How do Hedge funds compare with popular investments in terms of return and risk?*

JT: High risk gives high return. Hedge funds invest into high risk securities which can go either ways to make great returns or, one may lose money. That risk appetite will not be there with the mutual fund investors because they are all general public and want a risk free return. That is also a reason why the investors for the hedge funds have to be accredited investors who have risk appetite. So, for example if a person invests $100 million into a hedge fund and loses $50 million it may not make a big difference for a hedge fund investor.

Mutual funds mostly invest into equity securities, fixed income securities and some portion of derivatives. Derivatives are investments which derive its value from the underlying assets like futures, options, forwards and swaps. Again derivatives are divided into two categories like exchange traded and non exchange traded which is called over the counter (OTC). Mutual funds do not invest into over the counter securities. Mutual funds only invest into those derivatives that are risk free, because all the investors are mostly general public. Hedge funds can on the other hand invest into any security where they feel they can make money from. But mutual funds do all their calculations to see that they do not lose out money.

Next difference is in terms of strategies. Hedge funds take very risky strategies and that is one of the big difference it has with other investment vehicles.

IMI Konnect*: Why are hedge fund investments restricted to accredited investors?*

JT: First, high risk is involved in case of hedge funds as they invest into highly risky securities to make money. So, only accredited investors have the risk appetite to invest into the hedge funds. The second reason is the investment requirement which requires high net worth individuals or, accredited investors.

IMI Konnect*: What key features should an investor look for while investing in a hedge fund?*

JT: There are different points that an investor needs to consider before investing into a hedge fund. First, one has to look into the past returns of the hedge funds to find how the fund has performed. For example, if a fund is 5 years old then all 5 years returns needs to be looked into.

Secondly, what are the different type of strategies being taken need to be verified. Hedge funds have various investment strategies like long-short strategy where they invest into both long and short positions, long only strategy, short only strategy, macro strategy, multi strategy, event driven strategy, emerging market strategy, fund of fund strategy etc. So type of strategy applied by a hedge fund may be considered by an investor before investing.

Third, the reputation of the fund is very important and needs to be considered before investing. If we talk about top 10 or, top 20 hedge funds, everyone would like to invest because their returns are very high but not everyone can invest. For example, Bridge Water Associates which is most reputed hedge funds globally may be having a minimum requirement of $500 million to $1 billion to invest with them.

Next, an investor needs to consider the fees that need to be paid to the hedge funds. Most important out of them is the performance fee or, investment fee. Some funds even charge 40 per cent of the profit. For example, if an investor invests $100 million and the profit is $10 million then the fund manager may charge $4 million and investor gets only $6 million. So the fees need to be considered before investing into a hedge fund.

IMI Konnect: *How have the hedge funds performed globally since the onset of the pandemic? And also in India?*

JT: In 2020, the average returns by all the hedge funds globally considering all the strategies was 10 per cent. But some funds outperformed and gave a return in the range of 15 to 20 per cent. February and March were the worse months in 2020 because that is when the COVID-19 hit the market. But post that the pandemic did not impact the market much though the returns were not as good as 2019 or, 2018. But, considering the pandemic situation, the funds performed well. As of now in 2021, the average global returns have been 6 per cent till June 2021. In January 2021, the returns by the hedge funds globally were negative. If we talk about the Indian hedge funds, the average returns were 14 per cent in 2020. Emerging markets hedge funds globally gave a 12 per cent average return in 2020. So, the Indian funds outperformed the emerging market hedge funds.

IMI Konnect: *Tax saving is one of the driving factors for investment. How do you see Budget 2021 affecting the hedge fund industry in India in this regard?*

JT: Hedge funds in India got approval from SEBI in 2012 so it is pretty new and a growing industry in India. But, we have not seen any favourable laws or, rules for hedge funds or, alternative investment funds in India from tax perspective. But, mutual fund investors get benefit by investing into mutual funds from the tax perspective. The same advantage is not there for hedge funds. The government of India and the Finance Ministry needs to look into the same to attract more investors into the hedge funds. This is because the hedge fund market is growing and growing very fast in India. Also, when FIIs are investing in India and getting benefitted out of it, the government should think of more favourable regulations from tax perspective to attract more hedge fund investments in India. In 2021 budget we did not see anything for the alternative funds.

IMI Konnect*: What makes the well performing hedge funds in the global arena different from the poor performing ones?*

JT: It all depends on the strategy of the fund. So when to take what strategy makes the difference to the performance of the fund. So, for example, during the pandemic situation, long only funds made a lot of money. After March – April 2020, the markets started going up globally including India. So funds which were long only made good money. From my experience in the hedge fund industry, I would say taking the right strategy helps to make money or provide a decent return in the hedge fund industry. Usually funds applying the micro strategy or, multi strategy never lose money irrespective of the market situation. For example, in 2008, when the meltdown happened, most of the distressed strategies made a lot of money. For example, asset backed funds made a lot of money. So, in bad times also, some funds made a lot of money. Meltdown happened because of the real estate so funds that bought all the real estates and then converted into asset backed securities and those funds which were investing into the asset back made lots of money in 2008 and 2009. So it depends on the situation but the best funds in the market make money when they apply micro or, multi strategy.

IMI Konnect*: What are the key insights needed by a hedge fund manager to strategize well? Do you think a hedge fund manager plays a pivotal role in the organization?*

JT: Yes obviously fund manager is the driving force for a hedge fund. The key players in case of a hedge fund would be the fund manager, prime broker who executes the trade, the custodian who holds the security, the fund administrators who does the independent valuation of the funds, the auditors who do the audit of the funds and the legal team who provide all legal support. So, fund managers are the driving force for hedge funds. So, how good the fund will perform depends on how good the fund manager is.

IMI Konnect*: What would be your tips for an investor about when to invest into a hedge fund, especially in the Indian context?*

JT: Irrespective of the scenario, hedge funds will not lose out the money. There are chances to lose money but they hedge their position such that they do not lose the money. So, there is no right or wrong time to invest into hedge funds. I would rather say that one needs to consider the factors I have mentioned earlier before investing and once the fund is shortlisted there is no right or wrong time to invest. If the fund manager is right then the fund performs well. Now there can be warlike situation when the market starts performing poorly as the FIIs withdraw money from the market. Likewise natural calamities also play a big role but if one can choose the right fund manager and right hedge fund then right or wrong time may not be a factor.

IMI Konnect*: Are there any characteristic difference between the Indian hedge fund companies and their global counterparts? If so, what are they?*

JT: Indian hedge funds are pretty new, they are growing and they are emerging. While, global hedge funds are 70 per cent based out of USA, rest are from Europe, Middle East and Asia-Pacific region and they are all matured industry.

Secondly, in terms of investors, the U.S. hedge fund industry has more readily available investors who are ready to take risk to invest into the hedge funds but in India awareness about the hedge funds is still low owing to less marketing and therefore number of investors are low.

IMI Konnect*: In the current scenario, what are the concerns or challenges involved in the alternative investments?*

JT: Alternative investments are very private. Most of the information is not shared with anyone like who are the investors, how much money they have invested is not disclosed. There are no regulatory requirements. So, data breach is one of the crucial factors in case of alternative investments. So, investors are concerned about the money they are investing so that there are no data breaches, data theft. These factors are very crucial when it comes to hedge funds. This apart market risk can be a major challenge for hedge fund investors.

IMI Konnect*: We have Alternatives Investments Fund regulations. Do you think appropriate regulations exist to protect the hedge fund investors in India?*

JT: Globally also hedge funds are not much regulated. But, off late we have seen that Securities Exchange Commission has put some regulations around hedge funds like they need to file returns once a year, they have to provide certain information which is required. So, some regulations are there. But, the entire purpose of having hedge funds is to provide secrecy to the investors. But some regulation is definitely required to protect the investor's rights. In Europe, the Financial Conduct Authority (FCA) manages all the hedge fund managers and there is the Alternative Investment Fund Managers Directive (AIFMD) is a regulatory framework. So, globally, some regulations are coming up slowly. In India also as the hedge fund industry is growing SEBI should bring in some regulations so that money that the investors are investing gets protected.

IMI Konnect*: In India, it is believed that gold acts as a safe haven. How do hedge funds compare to investment in gold in different forms in India?*

JT: Gold is again a very good way of investing in India. But, hedge funds have given a 14 per cent average return on investment in India in 2020. So, if one can choose the right fund manager and right hedge fund then it can give a much higher return than gold. But again, in India there is not much awareness amongst the investors regarding the hedge funds. Even in the financial services industry, many people are unaware of the existence of hedge funds in India. So, the government and SEBI should popularize the hedge funds and build awareness regarding the benefits of investing into the hedge funds. There should also be more regulations around the hedge funds so that people start feeling comfortable to invest into the hedge funds. Obviously with good fund managers the returns will be more than gold. In fact there are funds whose underlying investment is into gold or, different types of metals. So there are funds wherein investors can invest in securitized form of gold and depending on the market price of gold the market value of the investment changes. In India it will take some time to popularize the hedge fund industry and make people aware that they can make more money by investing into the hedge funds than by investing into gold or, any other traditional way of investment.

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