



India-ASEAN: Co-creating the future

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Foreword - Government of India

India and ASEAN have emerged as dependable trade partners for each other owing to their geographic proximity, shared values and common economic goals in the last two decades. The journey that started with their becoming sectoral partners in 1992 has reached new heights.

Major sectors that are likely to play a prominent role in this growth journey are logistics, agriculture, blue economy and e-commerce. Also, manufacturing, textiles, automobiles, energy and healthcare are expected to significantly boost trade in the coming years.

India and ASEAN countries, owing to improving infrastructure, favourable demographics, progressive policies and vast skilled workforce, provide ample investment opportunities for global companies, across all major sectors. Rapid urbanisation and availability of huge domestic market further make these markets attractive. Additionally, introduction of GST in India and the establishment of the ASEAN

Economic Community have made it easier to do business in India and ASEAN.

Consequently, Foreign Direct Investments (FDI) in India and ASEAN countries have seen an uptick in recent years, and trade has trebled since 2009. For India, Singapore is one of the largest global contributor to FDI in sectors such as services, computer software and hardware, telecom and pharmaceuticals. FDI inflows from Singapore are also the highest among ASEAN countries. Conversely, finance, insurance and real estate sectors predominantly account for FDIs from India to ASEAN.

In addition to the ongoing initiatives between India and ASEAN members, several bilateral and multilateral initiatives at the country level are likely to play an important role in increasing trade and investment across India and the bloc. This report highlights the opportunities to enhance trade between India and ASEAN, with a focus on varied sectors such as logistics, agriculture, blue economy and e-commerce.



Shri Suresh Prabhu

**Minister Commerce and Industry
and Civil Aviation**
Government of India



Foreword - KPMG in India

India is one of the few large economies, where the pace of growth and development seems to follow an upward trajectory, driven by factors such as supportive demographics, technological expansion and progressive policymaking. This has been appositely supported by the central and state governments that have initiated several reforms in the last two years, helping India significantly improve its Ease of Doing Business ranking.

Similarly, driven by growth-focused policies, regional integration, favourable demographics, lower manufacturing costs and simpler cross-border processes, ASEAN countries are among the world's top performing emerging economies. This has helped the region become resilient to global shocks and maintain a robust growth rate.

With the economic activity gradually shifting to Asia, India and ASEAN stand to play a much larger role in international geopolitics and economic policy. Looking ahead, both the regions carry the potential to effectively build

upon the strong regional ties through efficient use of technology and connectivity.

Both India and ASEAN present massive investment opportunities across multiple sectors due to strong small and medium enterprise and business ecosystem, vibrant start-up environment, and business friendly policies.

This report touches upon five key sectoral collaboration areas i.e. trade, logistics, agriculture, blue economy and e-commerce with technology being the underlying theme. Companies and especially small and medium enterprises are increasingly exploring opportunities across these sectors with suitable support from the governments, as there lies tremendous growth opportunities between India and ASEAN in regional trade and public-private-partnerships, driven by various favorable factors highlighted in the report.

We would like to thank everyone involved in preparing this report, and hope you find it insightful.



Akhil Bansal
Deputy CEO
KPMG in India



Neeraj Bansal
Partner and Head
ASEAN Corridor
Building, Construction and Real Estate,
KPMG in India



Foreword - FICCI

In many ways, 2017-18 has been a dynamic year for India and ASEAN as they complete 25 years of engagement and association. The relationship, over the years, has matured into a progressive and action oriented collaboration and is now the anchor of India's Act East Policy.

India and ASEAN have common growth factors such as favorable demographics, increasing domestic demand, proliferation of technology, urbanisation, skilled workforce, and most importantly led by governments that are collaborating to ensure trade in the region reaches new heights, with minimal barriers.

There remains ample latitude for enhancing the collaboration between the two regions across government-to-government, government-to-private sector and private-to-private sectors. Removal of bottlenecks in physical and virtual world will act as a major boost for all businesses.

This brings us to the specific areas of focus. Air, land and maritime connectivity will be a major amplifier to the trade along with helping logistics sector build mature regional value chains and become a part of global value chains. On the other hand, government initiatives in re-skilling

farmers, leveraging technology, and providing easier capital will provide the necessary thrust to the agriculture sector. Conversely, blue economy presents massive opportunities for both the regions and can help improve the livelihoods of people within the region. To supplement all the sectors, digitalization will have a catalytic effect, especially in the e-commerce sector which is slated to reach USD165.5 billion and USD90 billion by 2025 for India and ASEAN respectively.

The key roadblocks in achieving these targets i.e. lack of infrastructure, slow rate of technology adoption, lack of financing and investments and dearth of appropriate process mechanisms, presents massive opportunities for India to further enhance the collaboration with ASEAN.

This report aims to highlight the key areas of collaboration between India and ASEAN across five key areas i.e. trade, logistics, agriculture, marine resources and e-commerce. The report also attempts to highlight the holistic nature of the engagement between the regions and the role of government and private sector participation.

I wish the programme a great success.



Sandip Somany
President
FICCI





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India and ASEAN at a glance

India and ASEAN at a glance^{01,02,03,04,05,06,07,08,09,10}

India



USD5 trillion - GDP by 2025



USD1 trillion digital economy by 2025



126 GW of renewables capacity by 2025



114 million middle-income households by 2025



99 smart cities by 2025

ASEAN



USD5.2 trillion - GDP by 2025



USD240 billion digital economy by 2025



98 GW of renewables capacity by 2025

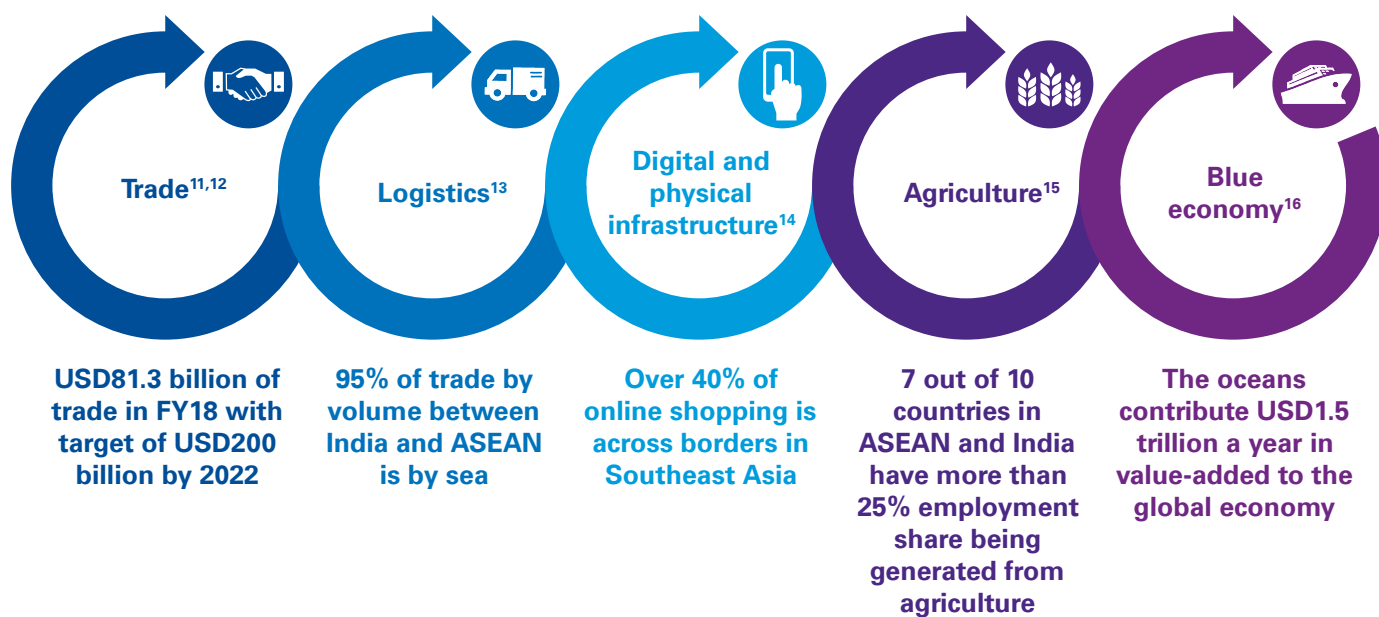


120 million middle-income households by 2025



26 smart cities by 2025

India and ASEAN – Collaboration areas



01. Working group suggests measures to achieve \$5 trillion economy by 2025, Economic Times, January 2019
 02. India's Trillion Dollar Digital Opportunity, Digital India, February 2018
 03. Google report southeast Asia's digital economy to triple to 240 billion by 2025, Tech Crunch, November 2018
 04. Achieving India's Ambitious Renewable Energy Goals: A Progress Report, World Resources Institute, May 2017
 05. Renewable Energy in ASEAN, The Green Political Foundation, August 2017
 06. Southeast Asia's rising wealth, HSBC, December 2018
 07. India's smart cities mission, Housing and Land Rights Network, 2018
 08. 26 cities to pilot ASEAN Smart Cities Network, QS Asia News, July 2018
 09. ASEAN digital economy has potential to boost GDP by US\$1 trillion by 2025, SMB World, September 2018

10. The growth of middle class in India, Magzter, February 2018
 11. 6th East Asia Summit and 15th India-ASEAN Economic Ministers Meeting held in Singapore, PIB, Government of India, September 2018
 12. India and ASEAN move closer, HSBC, February 2018
 13. Maiden 'Regional Maritime-Safety Conference' to focus on security, trade, Business Standard, February 2019
 14. Southeast Asia Cross-border E-commerce Market, Mordor Intelligence, August 2018
 15. The World Bank, Accessed on 7 February 2019 and KPMG/CRISIL analysis (by referring to the data for each ASEAN country from the World Bank link)
 16. The 'Blue Economy' and its vast potential, The Business Times, September 2018

Note: USD to INR conversions have been made at 1 USD = INR 71.14 (exchange rate on 20 February 2019)

Executive summary



India and ASEAN member countries have an illustrious history of mutual collaboration for more than 25 years, with a shared goal of economic growth and regional prosperity. The journey includes several successful initiatives that have enabled easier movement of goods and services. Both India and ASEAN present innumerable investment opportunities for investors from across the globe, across multiple sectors due to vibrant small and medium business ecosystem, booming technology based start-ups, and progressive business friendly policies. With conducive economic and demographic growth factors on their side, India and ASEAN are well placed to become a force to be reckoned with in the global economic environment.



Overview of sectors common between India and ASEAN

Retail <ul style="list-style-type: none"> India recently further liberalised the retail sector allowing 100 per cent single brand retail Foreign Direct Investment (FDI) through the automatic route⁰¹ Favourable demographics and a rising middle class present growth opportunities for the retail sector in both India and ASEAN. 	Manufacturing <ul style="list-style-type: none"> ASEAN's strong foot hold in the global manufacturing landscape could be instrumental in India's vision to increase the manufacturing output's share in the GDP to 25 per cent by 2025⁰² Opportunities across sectors including defence, pharmaceuticals, civil aviation, electric vehicles and renewable energy.
Logistics and transportation <ul style="list-style-type: none"> Logistics sector is likely to play a major role in increasing the efficiency of trade movement. Hence, integrating logistics across road, rail, maritime and air is the need of the hour for collaborative growth of the region Introduction of Goods and Services Tax (GST) in India and formation of an 'ASEAN Single Shipping Market' is likely to create an efficient logistics network to facilitate the movement of goods throughout the ASEAN countries and India. 	Digitisation <ul style="list-style-type: none"> Cross border e-commerce trade to expand with sub segment to reach USD1 trillion by 2020 driven by customers seeking lower prices and access to brands not available in home countries⁰³ ASEAN countries signed an agreement to jointly promote digital economy Collaboration opportunities exist in the areas of fintech, digital payments, cybersecurity and digital content value-chain.
Human development <ul style="list-style-type: none"> India's cross-sector talented human resources could be a differentiating factor for several ASEAN markets' journey towards growth and development Greater foreign investments would be required in India's education sector, and specifically in the 'Skill India' initiative, to enhance the country's skilling infrastructure. 	Agriculture and blue economy <ul style="list-style-type: none"> Agriculture continues to be the focus sector for the entire region, while blue economy is being given importance due to abundance of resources surrounding the mainland To harness the potential of blue resources, India and ASEAN are enhancing maritime connectivity that can lower costs of logistics and lead to increased trade of goods Disparity between number of ports in ASEAN countries and India is a concern for both regions. Both India and ASEAN members have been facing common challenges of declining arable land and reducing farm incomes.

01. Allowing 100% FDI in single brand retail store, DIPP, Government of India, February 2018

02. Manufacturing Sector in India, India Brand Equity, June 2017

03. Global Cross Border B2C e-Commerce Market 2020, UNCTAD, April 2016

Way forward to overcome trade barriers:

- Both India and ASEAN set-up joint committees to monitor the implementation of trade agreements and identify non-tariff measures which can be further liberalised
- Closer coordination and greater strategic convergence between governments can promote stability in the region
- Mutual recognition of institutions and standards can simplify movement between the two regions
- Need of the hour is a regional comprehensive air and maritime transport agreement
- Enhancing air-connectivity along with maritime and road linkages could create opportunities for employment and growth for both the regions. For example
 - Completion of a proposed trilateral highway, connecting Thailand, Myanmar and India across 1,360 kilometres.⁰⁴
 - Indian government's flagship infrastructure programmes (Bharatmala, SagarMala and 'Smart Cities' mission) could be fast tracked with investments and expertise from international markets
- India-ASEAN cooperation in developing agri-tech solutions for sustainable farming and efficient management of resources would not only be important for domestic markets but also for enhancing regional agri-value chains

⁰⁴. Trilateral highway with Myanmar, Thailand to be ready in about 2 years, The Hindu Business Line, November 2018





India and ASEAN: Under the lens

India's economic transformation

India, the world's fastest growing major economy⁰¹, is increasingly being viewed as an economic and geostrategic powerhouse, driven by a confluence of factors such as supportive demographics, technological expansion and progressive policymaking aimed at increasing self-sufficiency.

Factors driving India's growth story:

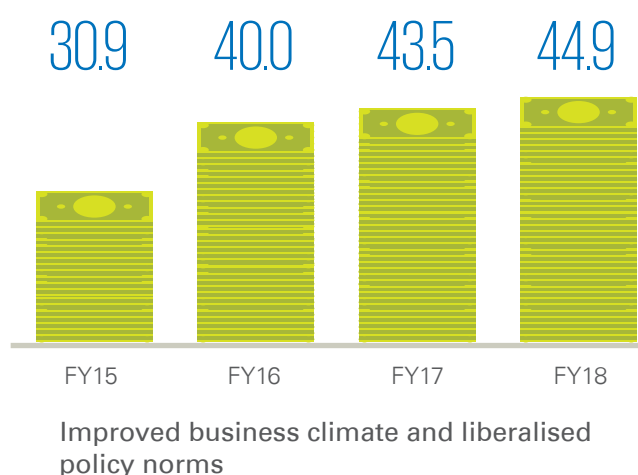
- **Aspirations of the youth:** is encouraging competitive federalism to eliminate red-tapism and introduce favourable policies to attract more investments.
- **Urbanisation and growing consumerism:** As Indians continue to migrate from villages to cities, rise in smaller urban clusters is likely to drive the urbanisation story in India and push for reforms.
- **Financial inclusion:** Over 80 per cent of the population has been brought under the organised banking spectrum through relentless efforts by the government via initiatives such as 'Jan Dhan Yojana', Aadhaar linked payments and bank accounts linked subsidy transfer.
- **Education:** The Government of India is increasingly focusing on the education sector through initiatives such as Blackboard to Digital Board and Diksha (Digital Infrastructure for Knowledge Sharing) that are leveraging technology to enhance the education system.
- **Healthcare and infrastructure:** Rising demand for affordable healthcare systems along with government initiatives such as the 'Ayushman Bharat Yojana' and 'Pradhan Mantri Jan Arogya

Yojana' and persistent push towards infrastructure reforms and capacity expansion through increasing investments is providing a strong foundation for accelerated and inclusive economic growth in the country.

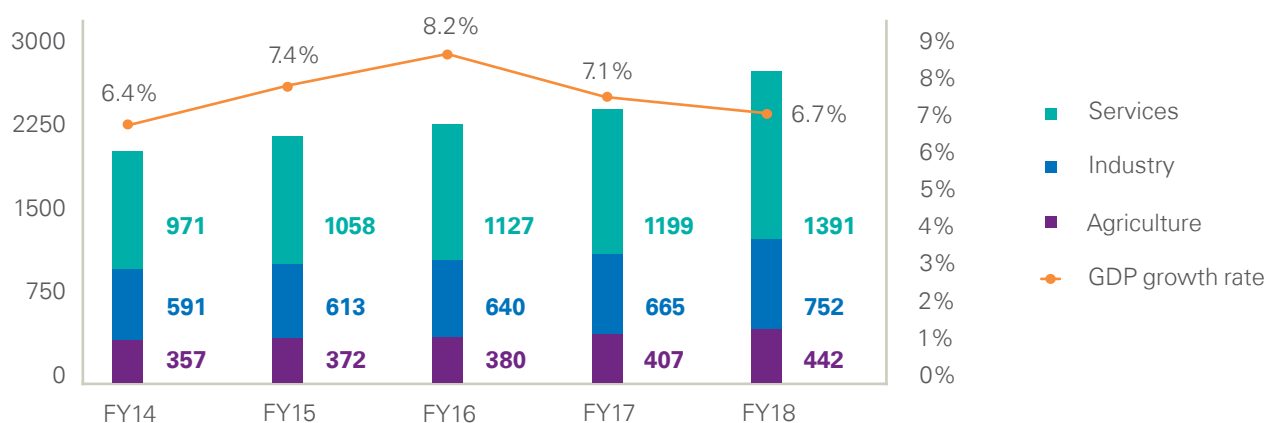
- **Start-up ecosystem:** Riding on the pillars of future technologies like Artificial Intelligence (AI), Blockchain, Augmented Reality/Virtual Reality (AR/VR), Internet of Things (IoT), Robotics, the start-up ecosystem has had a catalytic impact on the Indian economy.

India at a glance^{02,03}

FDI inflows (USD billion) in India growing at a Compounded Annual Growth Rate (CAGR) of ~13%



Services contribute close to 50% to India's GDP (USD billion)

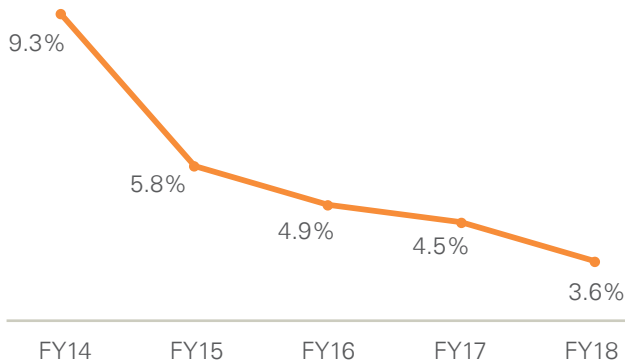


01. India Becoming World's Fastest Growing Economy, Press Information Bureau Government of India, December 2018

02. Department of Industrial Policy and Promotion, Accessed on 24 December 2018

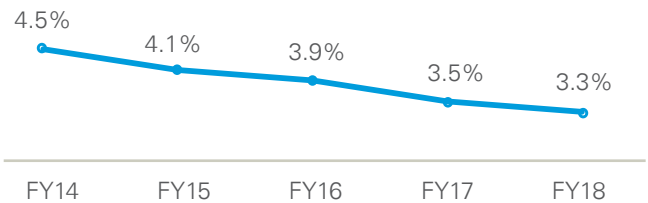
03. India's National Export Credit Agency, Investor Presentation, EXIM Bank, September 2018; India's Macroeconomic Indicators, EXIM Bank, November 2017

CPI inflation rate fell to multi-month lows



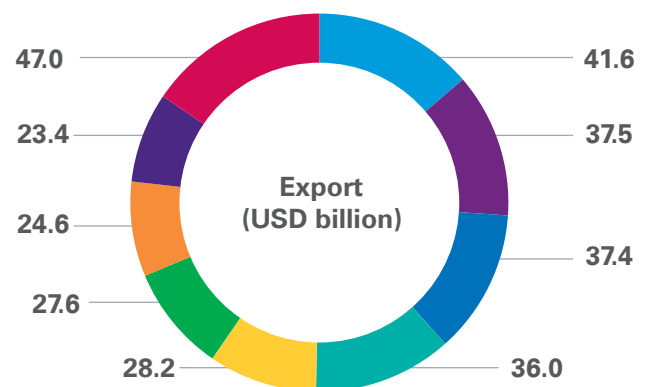
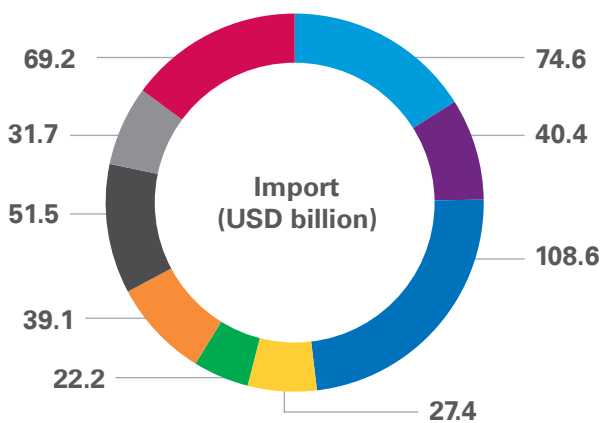
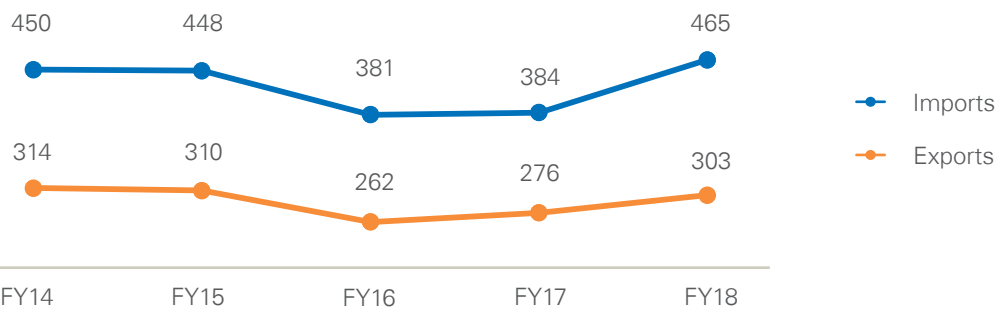
Fall is mainly due to slide in food prices

Fiscal deficit (% of GDP) on the decline



Less spend on food, fuel and fertiliser subsidies

Import-Export dynamics (USD billion)



- Gems and jewellery
- Chemicals
- Petroleum crude and products
- Textiles
- Base metals
- Agri and allied products
- Machinery
- Transport equipments
- Electronics items
- Ores and minerals
- Others

Merchandise trade (exports + imports) stood at 29.7 per cent of the GDP in FY18

India's merchandise trade accounts for 2.1 per cent share in global trade in 2017

India's exports need to increase significantly and pronounced contribution should come from the private sector.

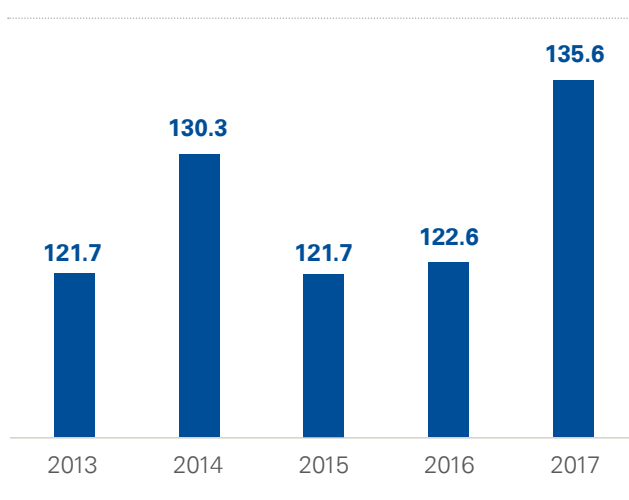
ASEAN's economic journey

ASEAN, a regional grouping of 10 countries - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, if treated as a single bloc, is the seventh largest economy in the world.⁰⁴ Moving ahead, the region is expected to become the fourth largest economy by 2030.

Factors driving ASEAN's growth story:

- **Favourable demographics:** More than half of the population is under 30 years of age in ASEAN, demographics are expected to stay attractive over the next decade and a half. An estimated 59 million people are to be added to its workforce by 2030, making it the third largest workforce in the world.⁰⁵
- **Expanding middle-income segment:** Domestic spending in the region is expected to rise on the back of ever-expanding middle-income population.
- **Regional integration:** ASEAN Economic Community (AEC) was launched to create a single market, enabling easier movement of goods, services, investment, and people across the region, support inclusive growth and increase competitiveness.
- **FDI driven manufacturing base:** Lower manufacturing costs, single market model and simpler cross-border processes attract higher FDI in the region.
- **Fiscal strength:** ASEAN's low levels of debt exposure and improving foreign reserves, makes a strong case for the region's high growth.

FDI inflows in ASEAN (USD billion)



04. ASEAN Business Guide, KPMG Singapore, Accessed on 9 January 2019

05. Driving growth in ASEAN economies, The ASEAN Post, 7 July 2018

ASEAN at a glance^{06,07}

ASEAN's GDP is growing at a healthy rate of over 5% *

Country	2013	2014	2015	2016	2017
Brunei Darussalam	-2.1	-2.5	-0.4	-2.5	1.3
Cambodia	7.4	7.1	7	6.9	6.8
Indonesia	5.6	5	4.9	5	5.1
Laos	8	7.6	7.3	7	6.9
Malaysia	4.7	6	5	4.2	5.9
Myanmar	8.4	8	7	5.9	6.8
Philippines	7.1	6.1	6.1	6.9	6.7
Singapore	5.1	3.9	2.2	2.4	3.6
Thailand	2.7	1	3	3.3	3.9
Vietnam	5.4	6	6.7	6.2	6.8
ASEAN	5.2	4.7	4.8	4.8	5.3

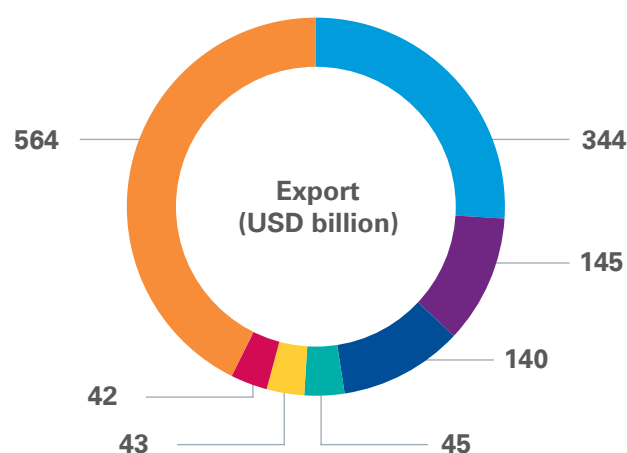
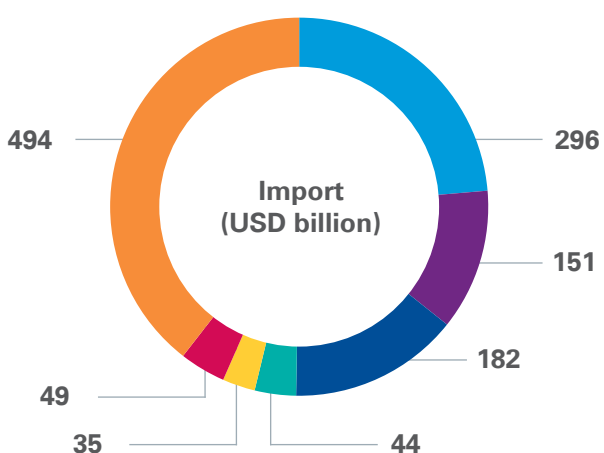
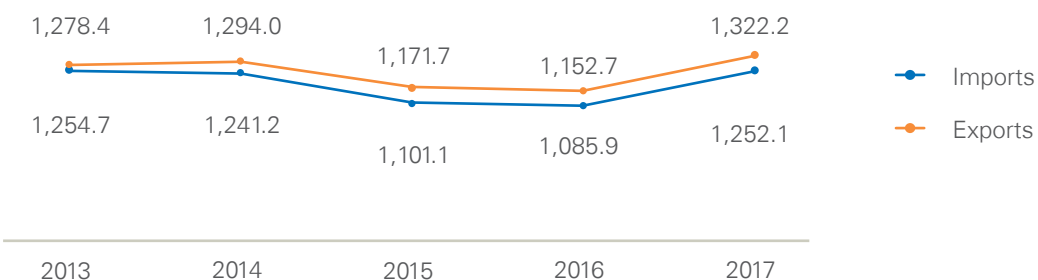
* The numbers for year ending 2018 are yet to be published on ASEAN

Country	Ease of Doing Business	Corporate tax rate
Brunei Darussalam	56	18.5%
Cambodia	135	20.0%
Indonesia	72	25.0%
Laos	141	24.0%
Malaysia	24	20.0-24.0%
Myanmar	171	25.0%
Philippines	113	30.0%
Singapore	2	17.0%
Thailand	26	20.0%
Vietnam	68	20.0%

06. ASEAN Statistical Yearbook, 2018, The ASEAN Secretariat, December 2018

07. ASEAN Business Guide, KPMG Singapore, Accessed on 9 January 2019

Import-Export dynamics (USD billion)⁰⁸



- Electrical machinery and equipment
- Nuclear reactors, boilers, machinery and mechanical appliances
- Mineral fuels and oils
- Vehicles and parts

- Optical goods
- Plastics and parts
- Others

Intra-regional trade is the key driver for ASEAN's growth in trade

ASEAN and its six strategic partners are deliberating the Regional Comprehensive Economic Partnership (RCEP), which if concluded, would be the world's largest free-trade area, representing nearly 30 per cent of global GDP.⁰⁹

ASEAN, where USD5.3 trillion worth of global trade and close to 15 million barrel of oil pass through its waterways¹⁰, is a region of geostrategic importance to the world.



⁰⁸ ASEAN Statistical Yearbook, 2018, The ASEAN Secretariat, December 2018

⁰⁹ Regional Comprehensive Economic Partnership (RCEP), ASEAN.org, October 2016

¹⁰ ASEAN Business Guide, KPMG Singapore, Accessed on 9 January 2019

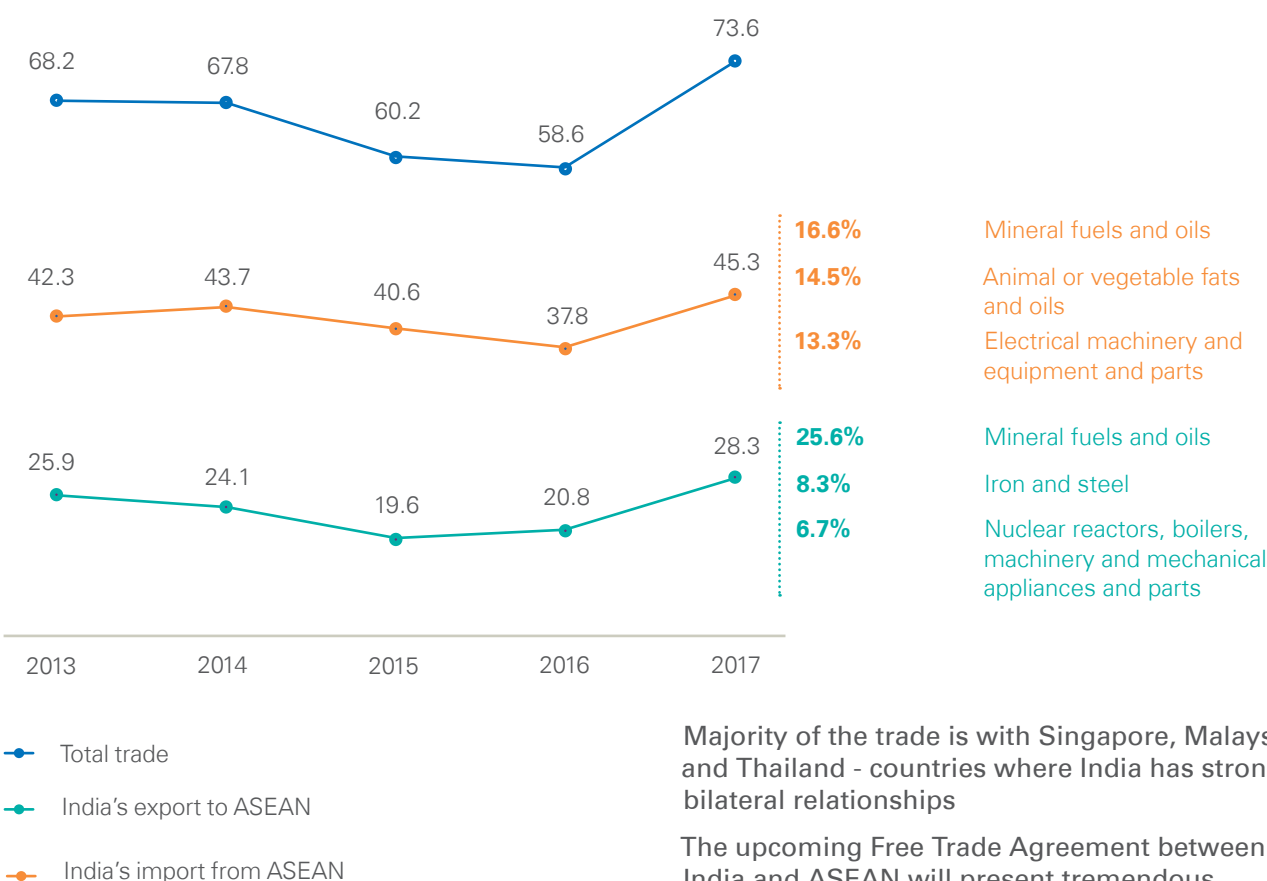
India-ASEAN partnership

India and ASEAN have reached major milestones as they traverse on the path to economic growth, social progress, cultural development and regional peace. They have completed 25 years of dialogue, 15 years of summit-level meetings, and five years of strategic partnership.

Across trade, investment, defence, security, culture and education, the relationship has matured into a dynamic, progressive collaboration, acting as the anchor to India's Act East policy.



India-ASEAN trade (USD billion) is range bound¹¹



Majority of the trade is with Singapore, Malaysia and Thailand - countries where India has strong bilateral relationships

The upcoming Free Trade Agreement between India and ASEAN will present tremendous opportunities for Small and Medium Enterprises (SME's) across both the regions.

The forward-looking requirement is to outline the structure for broad based sustainable trade. Amidst the emergence of Indo-Pacific as an important geopolitical construct, both India and ASEAN should increase cooperation in strategic interest areas to further enhance this relationship.

11. ASEAN Statistical Yearbook, 2018, The ASEAN Secretariat, December 2018

Trade and investment: Overcoming barriers to trade



Trade and investments: India and ASEAN^{01,*}

India + ASEAN 6% of global GDP More than 25% of global population		3X trade since 2009
USD81.3 billion of trade in FY18 with target of USD200 billion by 2022	USD13 billion of trade deficit, up 30% in last five years	16.9% of FDI inflows in India from ASEAN; 1.8% vice versa
Challenges thus far <ul style="list-style-type: none"> • Non-tariff barriers impeding trade • Weaker trade integration in ASEAN • Limited road, sea and air connectivity • Slower integration of trade agreements 	Probable solutions <ul style="list-style-type: none"> • Progressive elimination of tariff and non-tariff barriers • Streamlining customs, clearance processes • More connected infrastructure • Joint committees to track the implementation of agreements 	

*The numbers for year ending 2018 are yet to be published on ASEAN

The ASEAN India Free Trade Agreement (AIFTA), which was signed in 2009, trebled trade between India and the region to USD81 billion in FY18⁰².

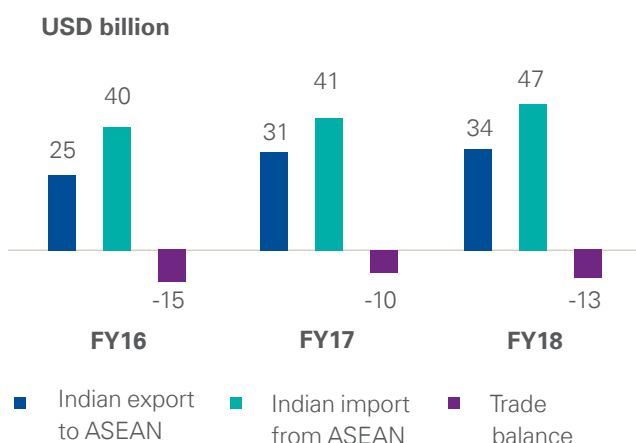
The framework agreement on comprehensive economic cooperation between India and ASEAN member states called for liberalisation of tariffs and non-tariff barriers in almost all trade in goods. India's support for deepening trade and investment relations with ASEAN member states and improving regional connectivity with the ASEAN region, including land, sea and digital connectivity, is very strong.

Favourable demographics, rising middle class, growing disposable incomes and policy reforms in India and ASEAN members have been the common factors driving growth in both the regions, leading to increased trade opportunities. India and ASEAN member states have agreed to gradually eliminate tariffs on 80 per cent of tariff lines accounting for 75 per cent of the trade. Further, liberalisation in the non-tariff measures would be important for India and ASEAN to realise the goal of USD200 billion trade by 2022.

Overview: India – ASEAN trade and investment

India-ASEAN trade has witnessed a steady growth with ASEAN members being India's fourth largest trading partner.⁰³ Furthermore, the country and ASEAN members have set a USD200 billion trade target by 2022 to boost trade and deepen ties.

India's trade with ASEAN⁰⁴



Various initiatives among India and ASEAN boosted India's exports in the ASEAN region in FY17

The delays in finalising the Regional Comprehensive Economic Partnership (RCEP) has led to decline in growth rate in the exports in FY18.

01. Strengthening ASEAN-India Partnership: Trends and Future Prospects, Exim bank, January 2018

02. ASEAN-China trade boosting growth, Chinadaily.com.cn, 19 November 2018

03. India-ASEAN Relations, MEA, Government of India, August 2018

04. Foreign Trade ASEAN, Ministry of Commerce and Industry, 10 January 2019

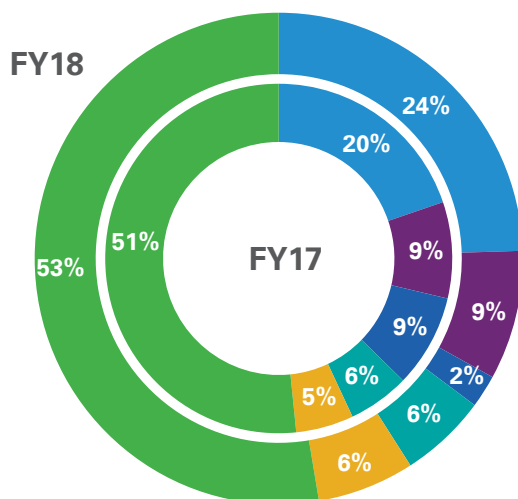
India has been witnessing a trade deficit with ASEAN, with Indonesia having the largest negative trade balance followed by Malaysia, Thailand, Brunei and Laos⁰⁵. ASEAN's higher import duties on essential commodities such as coal, petroleum and edible oils, and inadequate quality norms for import of processed food products have caused a widening trade deficit between the two regions. Safeguards and imposition of non-tariff barriers on India's exports of textiles and pharmaceutical products have further dampened Indian outbound trade with the region.

While India-ASEAN trade has risen three times since 2009, China's trade with the region has increased five times during the same period^{06,07} mainly due to China's higher investments in the region's economies.



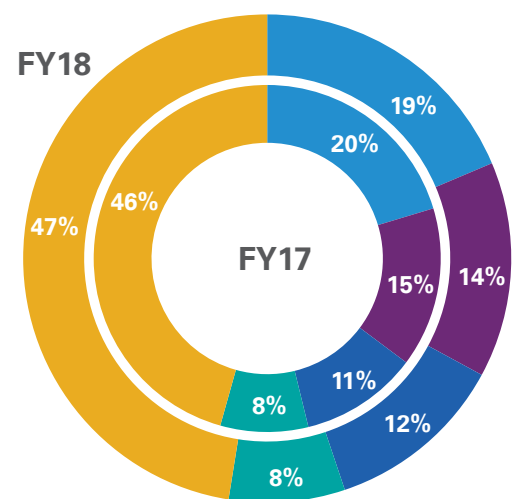
India-ASEAN trade items⁰⁸

Indian exports to ASEAN



- Mineral fuels and related products
- Meat
- Ships, boats and floating structures
- Nuclear reactors and related equipment
- Fish
- Others

Indian imports from ASEAN



- Mineral fuels and related products
- Animal or vegetable fats and related products
- Electrical machinery and related equipment
- Nuclear reactors and related equipment
- Others

India's top exports to ASEAN have witnessed gradual shift over the past decade, thereby making way for a focused government to government cooperation to explore newer areas of trade.

05. MPs fret over trade deficit with ASEAN, The Hindu, 26 August 2017

06. ASEAN-China trade boosting growth, Chinadaily.com.cn, 19 November 2018

07. ASEAN Statistical Yearbook, 2018, The ASEAN Secretariat, December 2018

08. Export Import Data Bank, Department of Commerce, 11 January 2019

India's top three trading partners in ASEAN^{09,10,11}



Top three trading partners are also the top three investor nations in India, with Singapore leading ASEAN's FDI flow in to the country at USD52.9 billion (cumulative 2000-2016), followed by Malaysia and Indonesia at distant second and third (USD829 million and USD626 million respectively)

India's top five sectors attracting FDI and ASEAN's investments in India



Within ASEAN, India attracts FDI predominantly from Singapore that primarily invests in India's financial services, telecommunications, drugs and pharmaceuticals, computer software and hardware, and trading sectors¹². Collectively, ASEAN countries' major investments in India are in the services, computer software and hardware, trading, telecommunications, and drugs and pharmaceuticals

sectors.¹³ Indian FDI into ASEAN countries is dominated by the services sector, primarily the finance and insurance sectors, repair of motor vehicle and motorcycles, and real estate sectors.¹⁴ Though there has been steady growth in India-ASEAN two-way trade, India's contribution to ASEAN's total FDI inflows stands at a nominal 1.8 per cent and its total external trade at 2.6 per cent.¹⁵

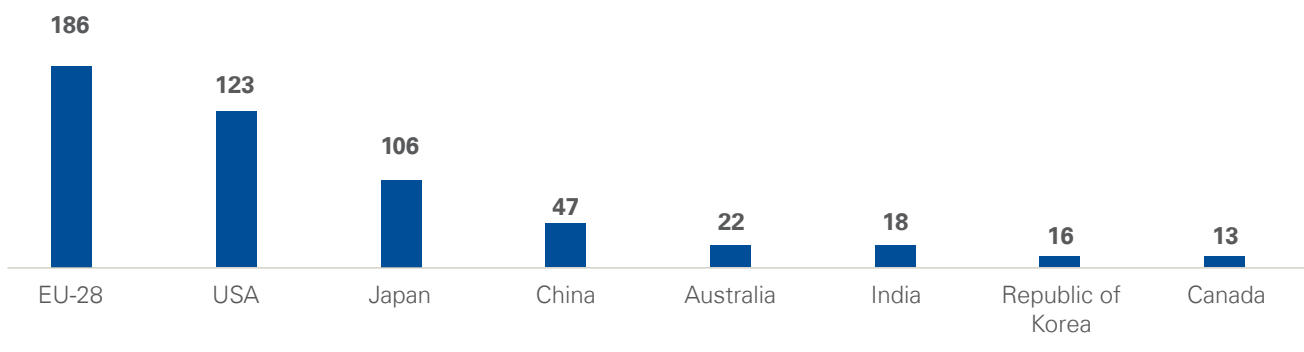
12. Why Singapore is a Hub for Indian Businesses, India Briefing, 19 June 2018

13. FDI SYNOPSIS ON COUNTRY ASEAN COUNTRIES, DIPP, 31 December 2016

14. ASEAN Investment Report 2017, ASEAN Secretariat ad UNCTAD, 2017

15. ASEAN Investment Report 2017, ASEAN Secretariat ad UNCTAD, 2017

Cumulative FDI inflows (USD billion) in ASEAN bloc from top non-ASEAN countries - 2008-2017¹⁶



Amongst the non-ASEAN FDI inflows into ASEAN, EU-28, the U.S. and Japan are the top investing countries. While this demonstrates a strategic investment strategy from these respective nations,

it also opens newer opportunities for trade and cooperation through probable regional value-chains in the sectors having common investing nations.



16. ASEAN Statistical Yearbook, 2018, The ASEAN Secretariat, December 2018

Key factors driving growth in India-ASEAN trade and investments

It is vital for both the regions to realise the mutually common growth drivers and leverage the ready growth infrastructure for a broader synergistic gain.

Internal and external factors driving trade and investment in India and ASEAN¹⁷



India and ASEAN countries have been undertaking several policy reforms, streamlining regulatory hurdles and boosting investments.

Further to the reform initiatives undertaken by ASEAN members and India at the country level, there has been an uptake in bilateral and multilateral initiatives to enhance trade and investment across the two regions.

Bilateral agreements between India and ASEAN

With several bilateral agreements recently getting inked, it becomes important for both the countries to set-up appropriate check-points for implementing the agreements and ensuring that objectives are met.

17. Driving growth in ASEAN economies, The ASEAN Post, 7 July 2018

Challenges and potential solutions towards increasing India-ASEAN trade and investments

India's Look East Policy established in the 1990s, modified to a more action oriented Act East Policy in 2014, makes it clear that the country has a long-term view towards strengthening economic and strategic ties with ASEAN.

Key challenges in unlocking India and ASEAN countries' full trade potential have been geopolitical stability, trade barriers, low connectivity, restricted movement of labour, and inconsistent and delayed implementation of trade agreements.



Key challenges and potential solutions impeding growth in trade and investments across two regions

Geopolitical security

- Navigating each country's competing strategic interests and susceptibility to be influenced by other countries, which makes it tricky to arrive at a consensus when tackling regional security concerns for India and ASEAN.

Closer coordination and greater strategic convergence between governments can promote stability in the region.

Trade barriers

- India-ASEAN free trade agreements have liberalised tariff measures by 90 per cent, though, non-tariff barriers such as differing import regulations, administrative complexities and other technical barriers have been impeding trade
- Inconsistent implementation of trade agreements, along with red-tapism and redundant regulations have also been hindering trade between the two entities
- India has expressed concerns on RCEP, specifically on market access which may impact the country's medium- to long-term competitiveness affecting the growing ecosystem of small and medium enterprises.

It is important that both India and ASEAN set-up joint committees to monitor the implementation of trade agreements and identify non-tariff measures which can be further liberalised.

Restricted labour mobility

- There is limited movement of labour between India and ASEAN countries, despite existing bilateral service agreements
- Protectionist labour policies and complex regulations have been hindering labour mobility, despite labour and skill shortages in select ASEAN countries.

Mutual recognition of institutions and standards can simplify movement between the two regions.

Low connectivity

- Lack of connectivity across rail, road, air and maritime is a major roadblock in creating a seamless ecosystem for trade
- Increasing air and maritime connectivity has witnessed some roadblocks due to limited load on direct flights
- Currently, only four out of 10 ASEAN member states namely Malaysia, Myanmar, Singapore and Thailand have direct flights with India and vice versa
- One of the major airline in India has less than 60 per cent seat capacity utilisation in flights to ASEAN cities, which has deterred the airline from increasing the number of daily flights in the region
- ASEAN currently has seven ports while India has only one. This disparity is a cause of major concern for both the regions as per 'ASEAN-India Maritime Connectivity Report' published by the ASEAN-India Center at Research and Information System.
- Need of the hour is a regional comprehensive air and maritime transport agreement
- Completion of a proposed trilateral highway, connecting Thailand, Myanmar and India across 1,360 kilometres, is expected to be a significant symbolic and physical step towards greater connectivity and asserting India's influence in the region.

Way forward

While India and ASEAN together transcend on their respective and joined paths to economic and social prosperity, it would be important to leverage institutional mechanisms for an appropriate reduction of non-tariff barriers to enhance trade and investment, while at the same time ensure improved livelihoods.

A fast-paced cooperation between India and ASEAN would not only help them realise the true and complete potential but also prepare them better for global uncertainties, as markets become highly susceptible to global turmoil and trade wars continue to risk the world trade balance.



Integrating logistics in regional value chains



Overview of logistics in India and ASEAN^{01,02,03,04}

CAGR of ASEAN's trade with different regions from 2009 – 2017		
China – ASEAN 12%	European Union – ASEAN 5.7%	India – ASEAN 6.1%
<ul style="list-style-type: none"> • Drivers: Launch of business friendly initiatives such as ASEAN Economic Community, ASEAN – India Free Trade Agreement, favourable demography • Challenges: Some non-tariff barriers, inadequate infrastructure, challenging geographical terrains • Opportunities: Growth in income levels, urbanisation, technological innovation, vibrant SME ecosystem 		<p>95% of trade by volume between India and ASEAN is by sea</p> <p>Major road projects like India – Myanmar – Thailand Trilateral highway in advanced stage</p>

Introduction – role of integrated logistics in boosting trade

Logistics is likely to play a prominent role in the growth of trade between India and ASEAN in the coming years. As a result, the focus of governments and businesses have shifted towards integrating logistics after the implementation of various forward looking initiatives, like the ASEAN-India Commemorative Summit, ASEAN-India Plan of Action (2016 – 2020), Master Plan on ASEAN Connectivity (MPAC) 2025.⁰⁵

The Regional Value Chains (RVCs) have played an important role in laying the foundation for improving manufacturing and production processes in developing countries as they seek to become an integral part of Global Value Chains (GVCs). Mature RVCs in India and ASEAN such as IT/ITeS and apparel sector, respectively, which have now become part of GVCs, can potentially benefit the entire region.

Key enablers and drivers for integrated logistics in India-ASEAN trade movement

According to a study by the Economic Research Institute for ASEAN and East Asia (ERIA), if India-ASEAN connectivity is enhanced, it could result in

significant cumulative gains of over 5 per cent of GDP for Cambodia, Myanmar, Thailand, and Vietnam, and gains of over 2 per cent of GDP for India⁰⁶. Key drivers towards integrated logistics development include:

Rising income levels leading to growing e-commerce market

Growth of logistic services is likely to increase due to growing e-commerce markets in India and ASEAN. E-commerce market in India is expected to grow at a CAGR of 20 per cent to reach USD165.5 billion by 2025 from USD38.5 billion in 2017⁰⁷, similarly ASEAN's e-commerce market is likely to grow at an even higher CAGR of 32 per cent to reach USD90 billion by 2025.⁰⁸

Business friendly new initiatives

To ease bottlenecks and outstanding logistics issues, India and ASEAN have in various capacities started initiatives to streamline logistics, with an expectation that these would make the value chain more efficient and lead to more trade.

With the introduction of GST in India, GVCs and RVCs are likely to grow as domestic markets become more efficient. On the other hand, formation of an 'ASEAN Single Shipping Market' helps create an efficient shipping network to facilitate the movement of goods throughout the ASEAN countries and India.⁰⁹

01. China-ASEAN in numbers: Trade ties, CGTN, November 2018

02. ASEAN-EU - international trade in goods statistics, Eurostat, September 2018

03. Indo-Asean trade rises 10% to \$72bn in FY17, but is long way off potential, Times of India, January 2018

04. Import Export Data Bank, Department of Commerce, Government of India

05. Delhi Declaration of the ASEAN-India Commemorative Summit to mark the 25th Anniversary of ASEAN-India Dialogue Relations, MEA, Government of India, January 2018

06. ASEAN-India: Forging Physical Connectivity, FSI, Republic of Philippines, June 2017

07. Indian Ecommerce Industry Analysis, India Brand Equity, December 2018

08. ASEAN e-commerce forecasted to grow 32% to almost US\$90b by 2025, Singapore Business Review, January 2018

09. ASEAN is Refining Supply Chain Networks, Supply chain Management Review, February 2016

Major initiatives enabling integrated logistics in India-ASEAN trade movement



ASEAN Economic Community (AEC)

The ASEAN Economic Community (AEC) was formed with an aim to develop ASEAN as a single market and production base, a highly competitive region with equitable economic development, and fully integrated into the global economy.¹⁰ Due to the 'one market' philosophy of the AEC, tariffs were removed, benefiting Indian companies in two ways:

- Companies that manufacture in ASEAN countries would be able to take advantage of the free flow of goods when exporting finished goods
- Indian companies that rely on ASEAN countries for intermediate goods in their supply chain can benefit from reduction in costs for goods and simplification of paperwork.¹¹

Master Plan on ASEAN Connectivity (MPAC) 2025

ASEAN countries have come together to create a MPAC 2025 that envisages to comprehensively connect and integrate ASEAN to promote competitiveness and inclusiveness. It focuses on five key strategic areas: sustainable infrastructure, digital innovation, seamless logistics, regulatory excellence and people mobility.

Road map for the integration of logistics services

To support increased connectivity, the bloc adopted a 'Road map for the integration of logistics services' that aims to create a single ASEAN market by strengthening economic integration through liberalisation and facilitation measures in the area of logistics services. It also shall support businesses and enhance competitiveness of ASEAN products by creation of an integrated logistics environment. The road map has identified the following main goals:

- Achieve substantial liberalisation of logistics services
- Enhance competitiveness of logistics services such as documentation simplification
- Expand capability of ASEAN logistics service providers
- Enhance multi-modal transport infrastructure and investment.

ASEAN-India Free Trade Agreement (AIFTA)

AIFTA was signed between ASEAN and India in 2009, and in 2015, a Free Trade Agreement (FTA) in services, trade and investment was signed.¹² The agreement paved the way for creating one of the world's largest free trade area markets, creating opportunities for over 2 billion people in ASEAN countries and India, with a combined GDP of USD4.8 trillion.¹³ Increased market access is likely to result in increased flow of goods to more efficient logistics.

The India–Myanmar–Thailand Motor Vehicle Agreement

The agreement is likely to play an important role in realising easy movement of finished and unfinished goods along highways connecting India, Myanmar and Thailand. The proposed highway will be 1,360 kilometers long, India is upgrading the Kalewa-Yargi road section in collaboration with Myanmar with an estimated cost of USD165.43 million.¹⁴

10. About AEC, Invest in ASEAN, 2018

11. India ASEAN Trade and Investment Relations, Assocham, July 2016

12. India's Free Trade Agreements, India Briefing, August 2018

13. ASEAN's Free Trade Agreements: An Overview, ASEAN Briefing, December 2017

14. Proposed India-Myanmar-Thailand trilateral highway: India, Thailand hope to overcome challenges for early completion, Indian Express, March 2018

Regional Comprehensive Economic Partnership (RCEP)

All 10 ASEAN countries and the bloc's six FTA partners, including India is part of the RCEP negotiations. The proposed FTA once signed is expected to make RCEP the world's largest economic bloc, comprising of over 40 per cent of global population and a third of global economy. RCEP could enable an easy flow of goods, capital and people across the 16 countries, make supply chains much shorter, and increase market reach for all businesses by means of integrated logistics.¹⁵

Status of various means of logistics between India and ASEAN for trade

Improved connectivity can result in substantial economic growth indicating the prominence of integrated logistics and its potential role in expanding trade in the region.¹⁶

Road connectivity

Below are the major road projects that are at various stages of progress:



India–Myanmar–Thailand Trilateral Highway

Kaladan Multimodal Transit Transport Project

Myanmar-India Economic Corridor (MIEC)

The trilateral highway is likely to be operational by 2019 and have a positive impact on the overall economy, especially for the businesses and people in north-east India. With discussions about a possibility of extending the trilateral highway to Cambodia, Laos and Vietnam, these road projects

can add incremental value for trade, especially for goods that require lesser delivery times. Further, finalisation of the India–Myanmar–Thailand Motor Vehicle Agreement is likely to play an important role in seamless movement of goods and products along highways and roads linking the three countries. The Government of India has issued the letter of award to one of the leading construction companies and work is underway at various stretches in India and Myanmar.

Maritime connectivity

As 95 per cent of India's trade by volume is transported by means of sea to ASEAN, hence, it is on the top on the list of policymakers to maximise its trade potential with India by developing its maritime infrastructure and enacting policies.¹⁷

As a result, the ASEAN-India maritime transport cooperation agreement is being negotiated and finalised. Setting-up of a maritime transport working group with ASEAN members to explore feasibility of a well-connected shipping network is underway. Another area under consideration is the interlinking of islands of India and ASEAN countries for improving maritime connectivity.¹⁸

Air connectivity

Growing demand for air cargo services, enhanced ease of doing business and leisure tourism are key drivers for the need to have a better air connectivity between India and ASEAN.

A majority of air-traffic from India to ASEAN is skewed towards few countries like Singapore, Malaysia and Thailand. Major ASEAN cities that have highest number of passengers from Indian airports are Bangkok, Kuala Lumpur, Yangon and Singapore.¹⁹ Also, incoming passenger flow to India from ASEAN countries is lower than the outgoing air traffic.

This can be addressed by having more direct flights connecting tier-2 and tier-3 cities of India. Airport hubs in Bangkok, Singapore and Kuala Lumpur have advanced passenger and cargo handling facilities and infrastructure, and hence attract a majority of air cargo from India.

Despite advancements in the aviation market, currently only four out of 10 ASEAN countries, namely – Malaysia, Myanmar, Singapore and Thailand have direct flights to India.²⁰ There is a growing need for India and ASEAN countries to develop a comprehensive ASEAN-India Air Transport Agreement

15. Leaders vow to create world's largest free trade area in 2019, The Strait Times, November 2018

16. ASEAN-India: Forging Physical Connectivity, FSI, Republic of Philippines, June 2017

17. ASEAN-India: Forging Physical Connectivity, FSI, Republic of Philippines, June 2017

18. ASEAN-India Connectivity: Mapping Pathways of Shared Prosperity, MEA Government of India

19. India ASEAN air connectivity, ISAS Insights, August 2018

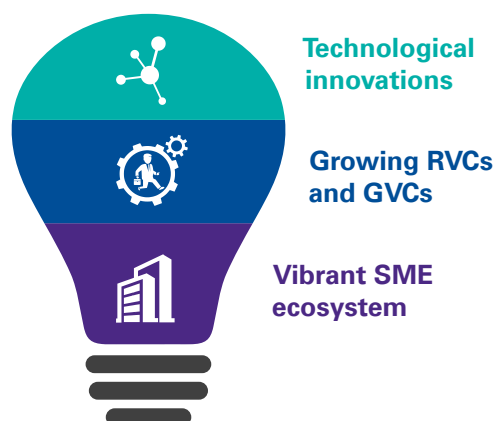
20. ASEAN India air connectivity report, RIS AIC, 2016

and expand the scope of Bilateral Air Services Agreement (BASA). Once these agreements are in place, besides easier movement of cargo, massive opportunities could open up in the tourism sector.

Opportunities to strengthen logistics

Strengthening of India and ASEAN's economic cooperation with establishment of multiple initiatives would not just be beneficial for governments, but also for businesses, especially SMEs that have been an integral part of the economy. Stable current accounts, low government debt levels, controlled inflation, diversified trade partner dependence and decent real returns make India and ASEAN countries an attractive choice for investment diversification.

Major opportunities to strengthen logistics in India and ASEAN for logistics



Technological innovations towards achieving integrated logistics

Technology plays a very important role in integrating logistics which further gets enhanced by the adoption of technology solutions such as e-commerce and app-based crowdsourced logistics platforms, leading supply chain activities from insourcing to outsourcing, rail and freight transportation. Rising urbanisation and shared-economy trends also boost the growth of start-up companies as part of the supply chain model

in ASEAN and India. Companies are now deploying new age technologies like big data analytics, machine learning, blockchain and robotics to develop a much more efficient and smart logistics, reducing time and costs.

Role of global and regional value chains in multiplying trade by increasing productivity and efficiency

Role of RVCs have been important in laying the foundation for improving manufacturing and production processes in developing countries as they seek to become an integral part of GVCs. RVCs may be less dynamic than GVCs in transforming the economy and pushing for faster industrialisation but have resulted in better logistic systems.

The World Bank's Logistics Performance Index (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics.

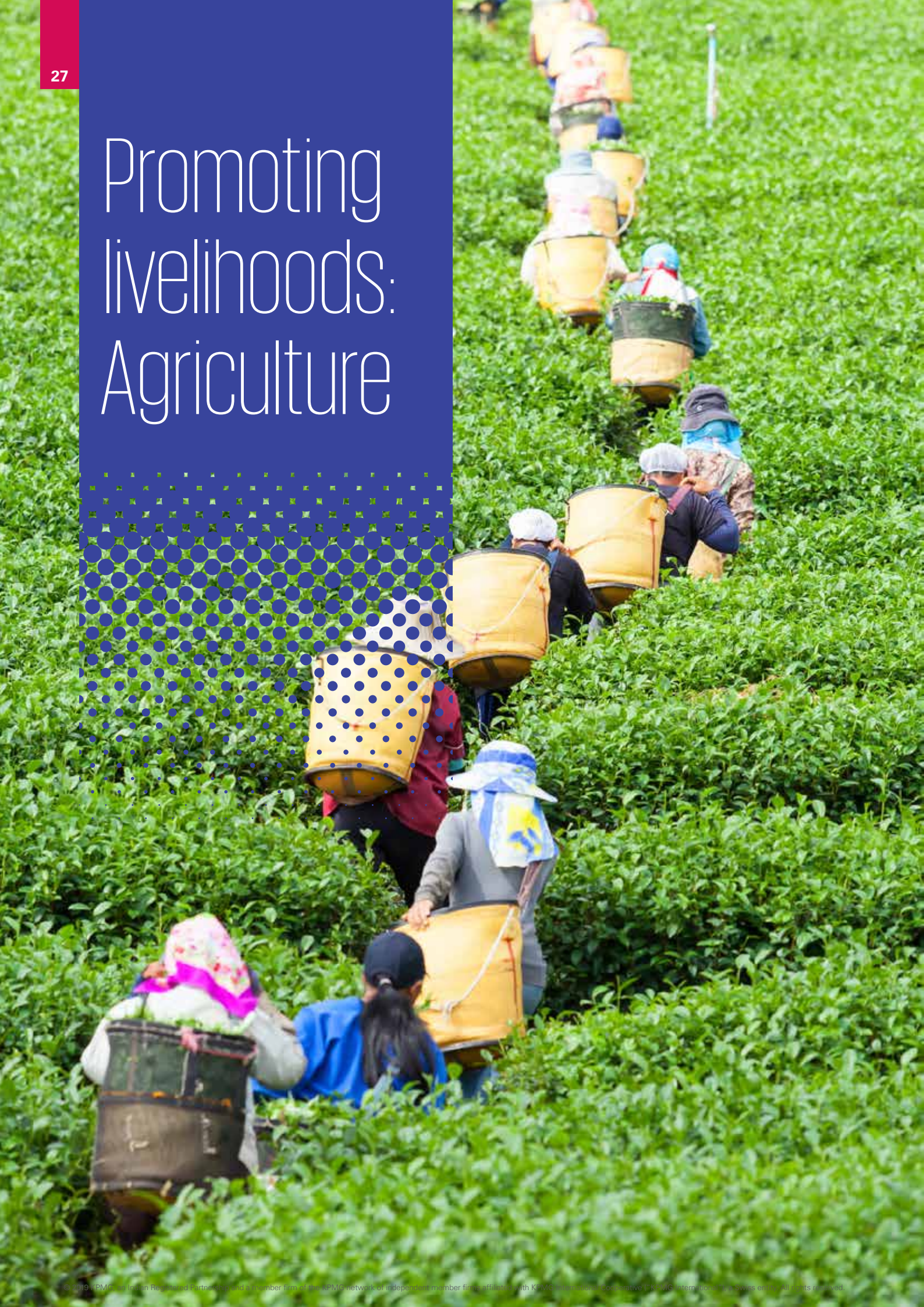
Overall Logistics Performance Index (LPI) of ASEAN and other countries – 2018²¹

Country	2018 rank	2018 score	2016 rank	2016 score
Singapore	7	4	5	4.14
Thailand	32	3.41	45	3.26
Malaysia	41	3.22	32	3.43
India	44	3.18	35	3.42
China	26	3.61	27	3.66

21. World Bank, Accessed on 9th February 2019



Promoting livelihoods: Agriculture



Overview of agriculture in India and ASEAN^{01,02,03}

India-ASEAN

- India and ASEAN are predominantly agriculture based regions
- Agriculture sector employs 43 per cent of Indian workforce
- In 7 out of 10 ASEAN countries, agriculture employs more than 25 per cent of working population

India

- India has around 18 per cent of global population and 15 per cent of global livestock, but only 2.4 per cent of overall global land and 4 per cent of water resources
- The sector contributes approximately 17 per cent to the Indian GDP

ASEAN

- Thailand and Vietnam are two of the world's largest rice exporters
- ASEAN is a leading producer and exporter of palm oil, coconut, rubber and seafood
- ASEAN's per capital arable land area of 0.12 hectares is amongst the smallest in the world

Introduction

Economies of India and ASEAN countries are predominantly based on agriculture, with close to 43 per cent of the Indian population and a similar percentage from majority of the ASEAN countries deriving their livelihoods from agri-business.⁰⁴

Even though most ASEAN countries are becoming more service based, resulting in decreased share of agriculture in overall employment in the last decade, still 7 out of 10 countries in ASEAN and India have more than 25 per cent employment share being generated from the sector, clearly indicating the importance of agriculture in the region.⁰⁵

Contributions to livelihood in India and ASEAN

Importance of agriculture in ASEAN economies:

The agriculture sector is likely to continue playing an integral role in the growth of the ASEAN economy. The ASEAN region has about 69 million hectares collectively under arable agriculture and 44 million hectares under semi-permanent crops like palm oil and rubber.⁰⁶ The sector has been a key driver for social and inclusive growth, and an important source of export earnings. More importantly, it has been a major source of employment directly and through allied value adding activities. Given the importance of exports, some ASEAN countries chose to focus on the development policies directed towards 'export-oriented' agriculture products (such as palm oil and rubber in Indonesia and Malaysia, and high value beverages such as cocoa and coffee in Vietnam).

Still, ASEAN's per capita arable land area of 0.12 hectares is amongst the smallest in the world, indicating the issue of small land cultivation. Small farmers lack knowledge about modern farming practices, and hence, face challenges in financing farming equipment. This leads to another issue of lesser productivity and the need to adopt the latest technology to increase efficiency.⁰⁷



01. The World Bank, Accessed on 7 February 2019

02. Agriculture and ASEAN Economies, RSIS, May 2016

03. Agriculture Export Policy, Department of Commerce, Ministry of Commerce and Industry, Government of India, 2018

04. The World Bank, Accessed on 7 February 2019

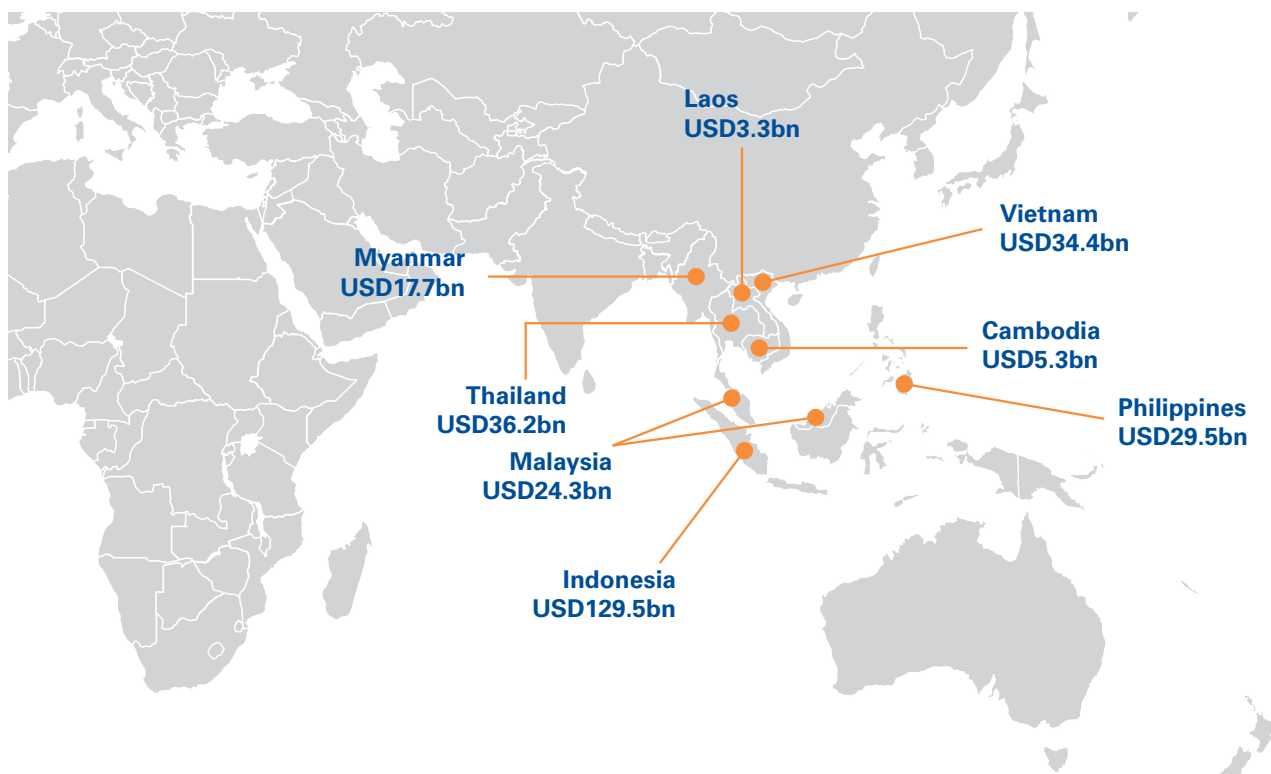
05. The World Bank, Accessed on 7 February 2019

06. Agriculture and ASEAN Economies, RSIS, May 2016

07. Agriculture and ASEAN Economies, RSIS, May 2016

08. ASEAN's role in global food security, The ASEAN Post, November 2018

Contribution of agriculture to ASEAN's GDP in 2017⁰⁸



Significance of agriculture in India: India, with one-sixth of the global population and 15 per cent of the livestock population but only 2.4 per cent of the overall global land and 4 per cent of the water resources, faces some unique challenges. Hence, continuous innovation and efforts towards productivity, pre and post-harvest management, processing and value-addition, use of technology and infrastructure creation are vital steps for the Indian agriculture.⁰⁹

In India, the current government policies are in alignment with the Sustainable Development Goals (SDGs), as a high degree of India's development agenda is reflected in SDGs, particularly on goal 2, which highlights 'end hunger, achieve food security, improve nutrition, and promote sustainable agriculture.' The government's comprehensive plans of doubling farmers' incomes by 2022, promote organic farming and issuing soil health cards are steps towards realising the SDGs.

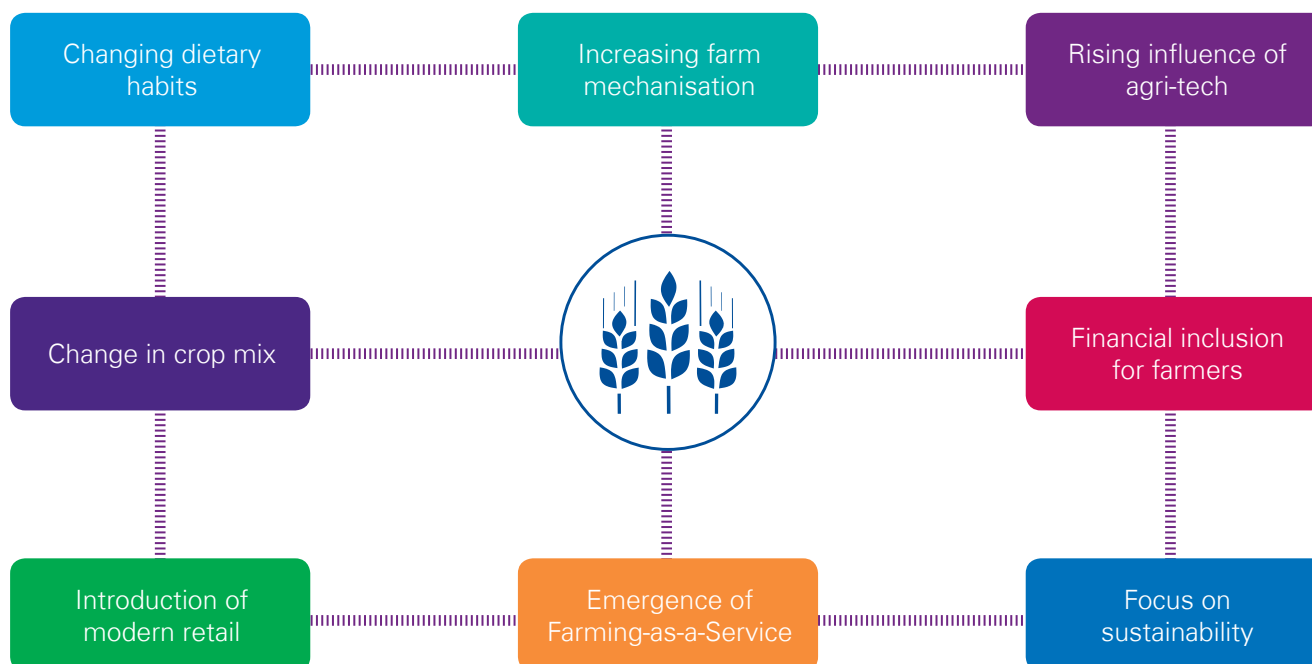
Key trends and their role in promoting livelihoods

Agricultural practices have undergone massive shifts in recent decades globally, with increasing usage of technology to improve productivity of crops from farming lands. It has led to growing need of creating awareness about best practices to farmers and providing easy access to capital and modern equipment. Such timely interventions and strategically planned collaboration between India and ASEAN members have the potential to increase the farmers' incomes and considerably uplift the overall quality of life.



⁰⁹. Agriculture Export Policy, Department of Commerce, Ministry of Commerce and Industry, Government of India, 2018

Major trends in the agriculture sector in India and ASEAN



Apart from the above highlighted trends, land aggregation models are specifically becoming popular in India as the sector is going through a transition. These innovative land aggregation models are compressing the value chain, thereby reducing wastage and increasing efficiency. Such models are helping farmers with small lands, aggregate their produce and sell to the buyers who require larger volumes. This cluster based approach along with contract farming is likely to benefit the sector in the long run.

Engagements between Indian and ASEAN

Agriculture and food security are prime focus areas for India and ASEAN. Moreover, AEC is likely to remove few trade barriers for agriculture products, promoting investments, capital and skill development in the sector.

Amongst several ongoing initiatives and agreements in the agriculture sector, India and ASEAN established the ASEAN Food Security Reserve board to set aside and share rice stocks during contingency periods.¹⁰ The Singapore Alliance on Sustainable Palm Oil (SASPO) is a first of its kind initiative in Asia that promotes the use of sustainable palm oil.¹¹ These initiatives have helped ASEAN to expand RVCs, and participate and become part of GVCs. ASEAN countries have come together to create a road map for agricultural cooperative development - 'ASEAN Road map for Agricultural Cooperatives Development in the context of Agricultural Global Value Chain 2018 – 2025' with mainly the below stated objectives:

- Provide guidance for enhancing participation of ASEAN agricultural cooperatives in agricultural GVCs
- Serve as a framework to harmonise agricultural cooperatives' legal structures and institutional arrangements within and amongst ASEAN member countries and share best practices.

10. ASEAN's role in global food security, The ASEAN Post, November 2018

11. Food Security & Sustainable Agriculture, ASEAN CSR Network, 2018

Key focus areas and measures for ASEAN Road map for Agricultural Cooperatives Development¹²

Institutional and capacity development

- Improve access to good quality advisory services
- Peer-to-peer learning and knowledge sharing

Competitiveness

- Create resilient cooperatives
- Create enabling environment for agricultural cooperatives growth and viability
- Stimulate commodity specific agricultural cooperation

Access to finance

- Promote sustainable financing systems for agricultural cooperatives

Access to markets

- Access to existing and new markets, and outreach business by agricultural cooperatives

Major challenges

India and ASEAN countries face certain challenges such as climate change, decreasing land base and water resources, dependence on monsoon for irrigation, difficulty in access to capital, low usage of technology, managing food supply chain and volatility in product prices.

Except for Malaysia, other ASEAN countries have not invested significantly in agricultural research and development. Thus, the region faces difficulty in

accessing finance, affecting the overall quality of agricultural infrastructure such as transportation and warehousing.¹³ Other issues such as overfishing, unsustainable farming methods and food wastage obstruct growth in the agriculture sector.¹⁴ While in India, average farm holding size has declined to half from 2.28 hectares in 1970-71 to 1.15 hectares in 2010-11, 67 per cent of agricultural land in India is held by marginal farmers with farm size less than one hectare, while farmers with large holdings (more than 10 hectares) constitute less than 1 per cent.¹⁵

Below are the common challenges being faced by the India and ASEAN countries in the agriculture sector:

- Extreme weather events linked to climate change such as floods, drought, landslides, etc.
- Pest and disease outbreaks
- Food safety and contamination events
- Dependence on policies for trade
- Volatile and unpredictable power price hikes
- Geopolitical conflicts and trade wars¹⁶

Opportunities and way forward

Adoption of modern techniques and technologies, together with effective and sustainable financial inclusion are likely to be important factors for farmers to increase productivity and efficiency, thereby improving the overall quality of life.

Innovative applications such as smart technologies and IoT simplify complex data, ensuring transparency, profitability, and accountability across agri value chain; taking into account various stakeholders such as farmers, tractor owners, tractor dealers, original equipment manufacturers, financial institutes and governments.

12. ASEAN Roadmap For Enhancing The Role Of Agricultural Cooperatives In Agricultural Global Value Chains 2018-2025, Asean Sectoral Working Group On Agricultural Cooperatives, 2018

13. ASEAN's role in global food security, The ASEAN Post, November 2018

14. Food Security & Sustainable Agriculture, ASEAN CSR Network, 2018

15. Agricultural output rose five fold in 60 years but farming sector is in distress, Hindustan Times, August 2017

16. ILSI SEA Region Seminar on Harnessing New Agriculture & Processing Technologies for Affordable and Sustainable Food Supply, ILSIEA, November 2017



Blue economy



Overview of logistics in India and ASEAN^{01,02,03}

India and ASEAN focus areas for blue economy <ul style="list-style-type: none"> • Develop sea ports • Improve maritime security • Promote tourism • Harness renewable resources 		India plans to invest USD13 billion in shipping, ports and allied sectors
Value of oceans' assets is estimated to be over USD24 trillion	The World Bank's blue economy portfolio is worth USD3.7 billion	The oceans contribute USD1.5 trillion a year in value-added to the global economy
<ul style="list-style-type: none"> • Fisheries and aquaculture provide employment to 10 – 12% of the world's population • 90% of those employed are in developing countries 		Emergence of Blue bonds <ul style="list-style-type: none"> • World's first blue bond was approved in Seychelles, to conserve marine resources with World Bank providing USD20 million package • In 2018, World Bank launched Sustainable Development Bond series to increase awareness, expects to raise at least USD3 billion

Introduction

ASEAN and India have recently started focussing on the blue economy model that involves harnessing the marine resources, given the abundance of the oceans and seas surrounding their mainland. As ASEAN countries and India share vast common maritime domain, it has been an important medium for stronger cultural and commercial linkages. Maritime connectivity is an important aspect of the blue economy, as it leads to lower logistics cost, and in turn increases trade of goods and services.

Key trends and their role in promoting livelihoods

ASEAN and India have tremendous scope in the field of blue economy. If these rich resources are harnessed efficiently, including by utilising the latest technology, various issues such as poverty, unemployment, food insecurity, and ecological imbalance can be effectively tackled. Few major activities that can create additional economic

stimulus for both ASEAN and India in blue economy are:

- Research and innovations in marine biotechnology
- Higher access to seabed resources
- Investment in marine Information and Communications Technology (ICT)
- Proper integration of coastal tourism⁰⁴

To achieve food security, improve livelihoods and boost economies based on marine resource utilisation, oceans' resources are being accorded high priority in the regions.^{05,06}



01. Second ASEAN-India Workshop on Blue Economy, ERIA, July 2018

02. The 'Blue Economy' and its vast potential, The Business Times, September 2018

03. 2nd ASEAN-India Blue Economy Workshop Keynote Address by Secretary, MEA, Government of India, July 2018

04. 2nd ASEAN-India Blue Economy Workshop Keynote Address by Secretary, MEA, Government of India, July 2018

05. Blue Economy in the Indian Ocean: Governance perspectives for sustainable development in the region, Observer Research Foundation, 18 January 2019

06. FM Piyush Goyal lays out 10 dimensions of Centre's Vision 2030, The Economic Times, 1 February 2019

Key priority areas for cooperation in the blue economy⁰⁷



Fisheries
and
aquaculture



Renewable
energy



Seaports
and
shipping



Mineral
exploration



Marine
biotechnology,
research and
development



Tourism



Ocean
knowledge
clusters

Engagements between Indian and ASEAN nations

In order to harness the immense resources of the blue economy, ASEAN and India organised the first ASEAN India workshop on Blue Economy: From Concept to Action⁰⁸, in November 2017, in Vietnam. The workshop focused on maritime areas such as, maritime connectivity, renewable energy, marine resource conservation, and coastal management. The second workshop between India and ASEAN countries was organised in July, 2018, had recommendations across investments, access, technologies, safety and data sharing.⁰⁹

Key recommendations from the second ASEAN India blue economy workshop¹⁰

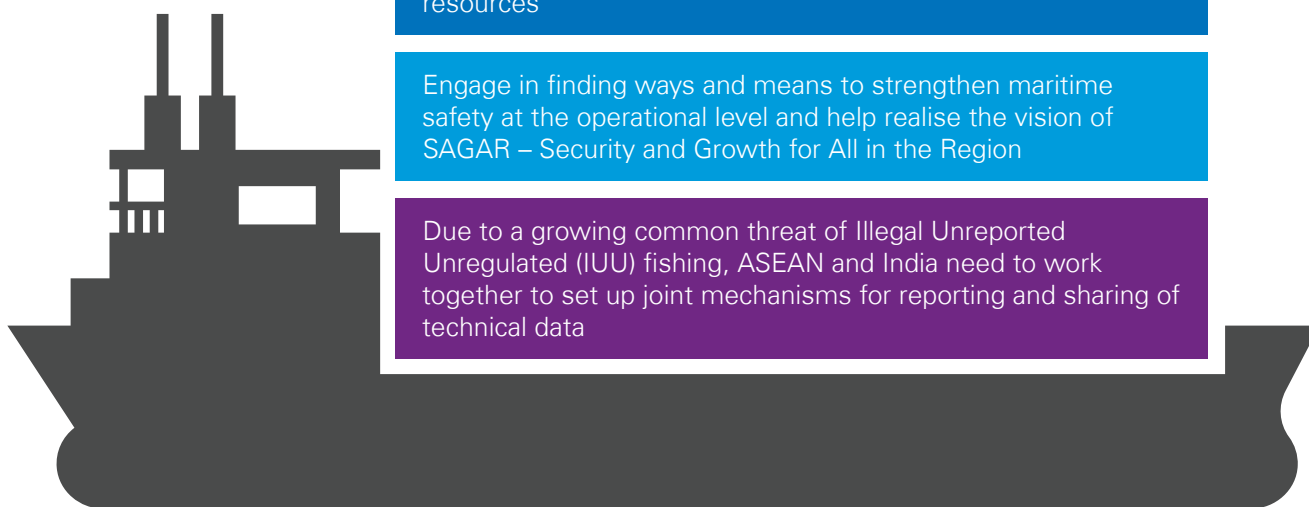
Jointly encourage investments in R&D for judicious and sustainable utilisation of marine resources

Work to establish a formal code that outlines access, use and protection of marine resources

Actively work together for the joint development of viable cost-effective technologies for effective utilisation of marine resources

Engage in finding ways and means to strengthen maritime safety at the operational level and help realise the vision of SAGAR – Security and Growth for All in the Region

Due to a growing common threat of Illegal Unreported Unregulated (IUU) fishing, ASEAN and India need to work together to set up joint mechanisms for reporting and sharing of technical data



07. India and Indonesia are growing the blue economy, The ASEAN Post, 31 May 2018

08. ASEAN-INDIA WORKSHOP on Blue Economy: from Concepts to Action, Ocean.gov, November 2017

09. Second ASEAN-India Workshop on Blue Economy, ERIA, July 2018

10. Second ASEAN-India Workshop on Blue Economy, ERIA, July 2018

India and ASEAN countries are also part of a larger blue economy group, Indian Ocean Rim Association (IORA), which was formed in 1995 to improve socio-economic cooperation in the Indian Ocean region. In the last two decades IORA has gained importance in the region and has 22 member states and 9 dialogue partners. The region is significant from the blue economy perspective as:

- The Indian Ocean has trade routes that carry almost 50 per cent of the world's container ships
- Approximately 33 per cent of the world's bulk cargo traffic
- Around 66 per cent of the world's oil shipments
- Combined population of member states is nearly 2.7 billion people¹¹

India has increased focus on the blue economy, as during the first Maritime India Summit significant investment commitment of about USD13 billion were made in shipping, ports and allied sectors. Further, the government announced that it plans to invest USD190 billion over the next ten years to develop 27 industrial clusters, to improve connectivity with ports through new rail and road projects. These projects are expected to create about four million direct and six million indirect jobs in the next 10 years.¹²

Further, India has identified priority sectors for the maritime ecosystem that include, shipping, ports, Container Freight Stations (CFS)/Inland Container Depots (ICD) and Coastal Economic Zones (CEZ), road, rail and coastal connectivity, shipbuilding, investments, advisory, technology, training and leisure including cruise and lighthouse tourism.

Also, the ministry of environment is working on several programmes such as the Bay of Bengal Large Marine Ecosystem Project and the Integrated Coastal Zone Management Project that aims to build national capacity for implementation of comprehensive coastal management approach in the country.¹³ These projects focus on conservation of coastal and marine resources, pollution management and improving livelihood opportunities for coastal communities.



Major challenges

India and ASEAN are positively collaborating to develop marine resources, however there are some unique challenges due to diversity in terms of population, country size, diverse natural resources and unique cultural heritage, effective regional cooperation towards a common goal is difficult. Further, complex regulatory landscape that involves diverse federal, sovereign, and international laws contribute to additional challenges. Though, most of the countries in the vicinity of the Indian Ocean have formed/listed their own fisheries regulations, it lacks proper standards, guidelines and enforcement due to limited data and capacity constraints. While, there has been some development after the establishment of IORA.

Blue resources are highly vulnerable as climate change and global warming has been eroding coastal habitats such as mangroves species. Also, it is leading to acidification and rise in sea temperature which is destroying coral reefs, that are critical to many sea species. Climate change is not only impacting marine species but also the communities that depend on them, resulting in additional socio-economic pressures. Hence, there has not been a better time for the entire region to come together and plan towards a sustainable blue economy.

Opportunities and way forward

For blue economy, it is essential to harness the massive amount of resources and to maintain and promote peace, stability, safety, and security amongst countries. Efficient and planned harnessing of blue resources using the latest technologies has the potential to improve the sustainability and the quality of life of inhabitants close to coastal areas, eliminate the issues related to food security and address unemployment challenges. Collaborative research between India and ASEAN along with investments to extract marine resources can play an integral part in the growth of India and ASEAN.

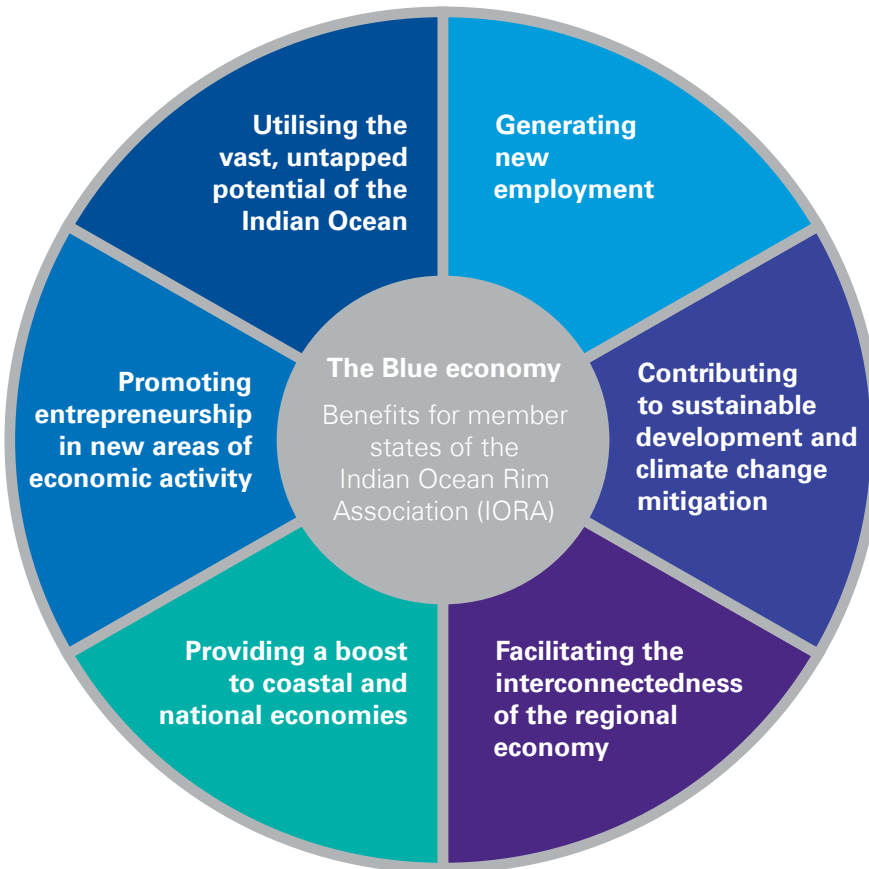
Taking the example of Indonesia, which is the second-largest producer of marine products in the world, planned investments of Indonesia in marine resources have enabled the aquaculture sector to contribute significantly to the Indonesian GDP, and simultaneously provide employment to around 4.1 per cent of the total workforce.¹⁴

11. About IORA, IORA

12. 2nd ASEAN-India Blue Economy Workshop Keynote Address by Secretary, MEA, Government of India, July 2018

13. 2nd ASEAN-India Blue Economy Workshop Keynote Address by Secretary, MEA, Government of India, July 2018

14. India and Indonesia are growing the blue economy, The ASEAN Post, May 2018



Hence, to harness the blue resources in sustainable and efficient way, government to government dialogues are a good start, at the same time businesses, communities and the industry in India and ASEAN need to engage through one common platform. The apex business organisations of India and ASEAN need to initiate business-to-business dialogues on blue economy, in addition to continued support from respective governments.



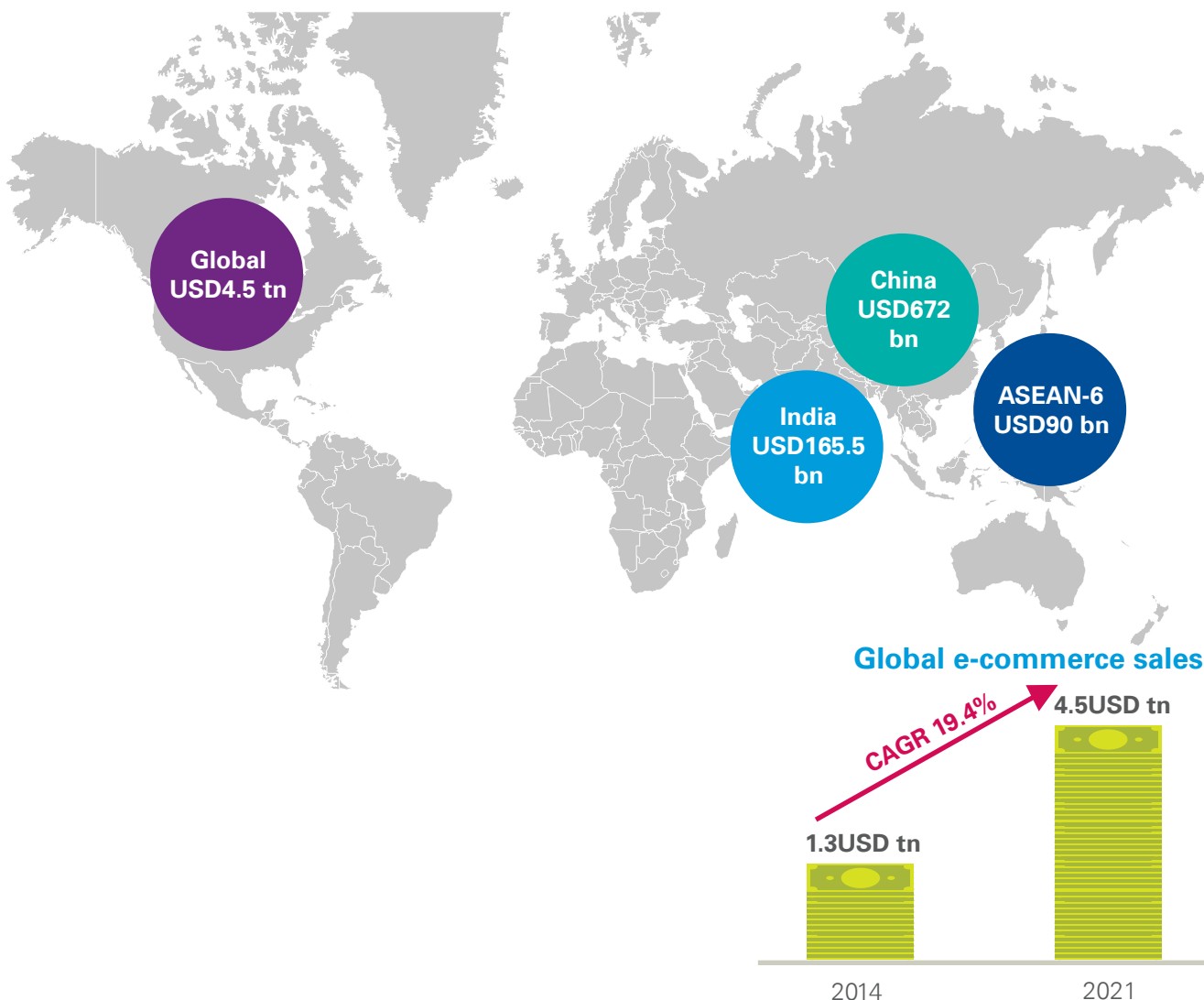


Focus sectors: E-commerce and digital trade - India and ASEAN

Introduction

Global retail e-commerce sales are expected to reach USD4.5 trillion by 2021. While, China dominates the global e-commerce sector, India and ASEAN member states are amongst the fastest growing markets in the sector.

Worldwide e-commerce trade^{01,02,03,04,05}



Indonesia – USD46 billion by 2025 from USD1.7 billion in 2015

Thailand – USD11 billion by 2025 from USD0.9 billion in 2015

Philippines – USD9.7 billion by 2025 from USD0.5 billion in 2015

Malaysia – USD8.2 billion by 2025 from USD1 billion in 2015

Vietnam – USD7.5 billion by 2025 from USD0.4 billion in 2015

Singapore – USD5.4 billion by 2025 from USD1 billion in 2015

01. Global Ecommerce: Statistics and International Growth Trends [Infographic], Shopify, 1 September 2017
 02. 10 of the Largest Ecommerce Markets in the world by country, Business, 22 February 2017
 03. ASEAN Consumer Survey: E-Commerce Potential, Hong Kong Means Business, 5 December 2017

04. ASEAN e-commerce forecasted to grow 32% to almost US\$90b by 2025, Singapore Business, 31 January 2018
 05. Indian Ecommerce Industry Analysis, India Brand Equity, December 2018

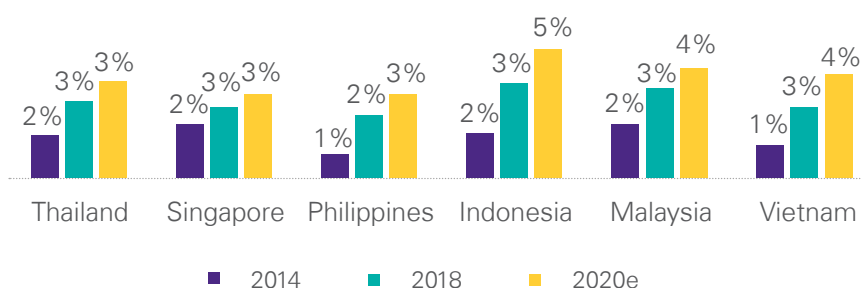
Cross border e-commerce is expected to play a major role in supporting e-commerce expansion, with the sub segment expected to reach USD1 trillion by 2020 driven by customers seeking lower prices, access to certain brands unavailable in the home country and unique or specialty products not available in the home region. Over 40 per cent of online shopping is across borders in Southeast Asia⁰⁶, wherein customers primarily shopped in segments such as airline tickets, tour and hotel reservation, electronics and clothing.



India-ASEAN e-commerce sector – Key statistics^{07,08,09,10,11,12,13}

India

- Population: 1.35 billion
- Internet users: 481 million
- Digital buyers: 120 million
- Sector growth: 20% between 2017-2025
- Market size: USD165.5 billion by 2025



ASEAN six e-commerce market penetration

ASEAN

- Population: 635 million
- Internet users: 390 million
- Digital buyers: 87.2 million (ASEAN 6)
- Sector growth: 32% between 2017-2025
- Market size: USD90 billion by 2025

Significance of cross-border trade in ASEAN: The recent establishment of an ASEAN agreement on e-commerce¹⁴ among the member states aims to facilitate cross border e-commerce trade by lowering certain non-tariff barriers and enhancing digital connectivity. Further, 'ASEAN's Digital Integration Framework' and 'ASEAN Innovation Network' aim to create an infrastructure for improving ASEAN's digital ecosystem in areas such as free and secure flow of data and seamless e-payments network. Singapore and Malaysia account for over 50 per cent of the total cross-border e-commerce market.¹⁵ Further, 40 per cent of all Malaysian online sales and upto 55 per cent of all online sales in Singapore are cross border transactions.¹⁶

06. E-commerce Retailers: The Next Billion \$ Opportunity – Are We Ready?, Frost and Sullivan, 2016
 07. Internet users in India expected to reach 500 million by June: IAMAI, Economic Times, 20 February 2018
 08. ASIA INTERNET USE, POPULATION DATA AND FACEBOOK STATISTICS - JUNE 30, 2018, Internet World Stats, Accessed on 15 January 2019
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 10. Global Online Retail Spending – Statistics and Trends, Invesp, Accessed on 15 January 2019
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 13. India E-commerce market size, Statista, Accessed on 9th February 2019
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 15. Speech by Minister S Iswaran at the Digitize ASEAN Conference 2018, MTI Singapore, June 2018
 16. Cross-border e-commerce in Singapore and Malaysia, e27, February 2014

Key sectors driving digital trade in India and ASEAN

All major sectors are expected to adopt and impact the digital economies in India and ASEAN to varying degrees, financial services, logistics, healthcare and retail are expected to lead the charge.

Major sectors driving digital trade in India and ASEAN^{17,18,19}



Financial services

- In India high service cost and lack of data for the entire population impacting mass penetration: over 85 per cent of SMEs have no digital or credit history
- eKYC, and other processes aim to reduce customer onboarding time
- Digital banking is higher in rich and young consumer segments. Adoption rate in ASEAN 6 countries' is between 29 per cent to 92 per cent in affluent income group, 22 per cent to 100 per cent in 21-29 age range.



Healthcare

- Poor access, affordability and quality are the key concerns for India and most ASEAN countries' healthcare sector
- Technology such as Artificial Intelligence (AI) and Cloud computing, internet of things and unified electronic health record can bridge the gap
- In India, telemedicine is expected to be a USD 800 million market by 2020
- Micro financial products can provide health care to over 40 per cent of population.

In India the banking sector is under-penetrated as SME's consumer credit to GDP ratio is just 13 per cent in India, compared to 40 per cent in China and as high as 80 per cent in the U.S. This indicates huge potential of the banking sector as it witnesses innovation across payments, lending, Artificial Intelligence (AI) and security, elevating customers' overall experience. Digital payments in India is expected to cross USD500 billion by 2020²⁰ owing to



Logistics

- The logistics sector lags on most indicators compared with the global average.
- India's logistics spend is 13 per cent of GDP compared with world average of 9 per cent
- India and ASEAN countries needs to increase operational efficiency and build infrastructural capacity
- Digitisation across warehouse automation, supply chain financing and digital freight forwarders can boost efficiency.



Retail

- In India, online sales is expected to reach 10 per cent of total retail spend by 2025 from 3 per cent in 2017
- Tier-2 and tier-3 penetration is expected to increase, while e-tail spend is expected to move from electronics to non-electronics segments
- While in ASEAN, electronics is the largest category at 25 per cent market share, yet fashion and cosmetics segments are expected to lead growth due to low brand availability in offline retail channels.

rapid smartphone penetration and increasing internet connectivity. According to a survey, the adoption of e-commerce has been increasing in ASEAN countries, SMEs in the retail sector have witnessed an increase in sales by up to 15 per cent, due to e-commerce platforms.²¹

Digital transactions in the Asia-Pacific region are expected to account for over 50 per cent of global card transactions.

17. Imagining Trillion Dollar Digital India, IBM Kalaari Capital, April 2018

18. Online Retail In Southeast Asia Is Expected To Reach \$53 Billion By 2023, Forrester, 29 November 2018

19. The Growth of Digital Lending in SouthEast Asia, Nelito, September 2018

20. What's Driving India's Fintech Boom?, Knowledge Wharton, 11 February 2018

21. Helping ASEAN ride the e-commerce wave, The Business Times, November 2018

Key growth drivers

India and ASEAN are among the fastest growing economies in the world with even faster growth rates for e-commerce and digital trade sectors.



Young and favourable demographics: One of the key factors driving growth in India's e-commerce and digital trade sector is its growing young population expected to make up over 35 per cent of the population by 2021²², which form the majority of online shoppers. Similarly, 50 per cent of ASEAN's population is under 30 years of age²³.

Rising disposable income and increasing consumer spend: India's rising disposable income is driving consumption, as India's per capita income is expected to increase by 10.2 per cent to reach USD3746 by 2025 while spending is forecasted to rise to 45 per cent by 2025 from 35 per cent in 2018²⁴. ASEAN member countries have emerged as some of the fastest growing emerging economies,

representing about 5 per cent of global GDP²⁵; these economies are expected to have the highest total consumer spend by 2023²⁶, overtaking North America.

Urbanisation: Metro cities in India account for a majority of online sales. This is due to rapid urbanisation, internet penetration and proliferation of smartphones into tier-2 and tier-3 cities. Similarly, ASEAN has witnessed rapid urbanisation, and an estimated 100 million people are expected to migrate from the countryside to cities between 2015 and 2030²⁷. In India, urbanisation has increased from less than 30 per cent in 2007 to almost 34 per cent in 2017 and 40 per cent of the population living in urban areas will account for over 60 per cent of consumption by 2025.²⁸

22. Youth in India, MoSPI Government of India, 2017

23. Digital commerce and Southeast Asian consumer behaviour, The Asean Post, 10 March 2018

24. High Disposable Incomes Driving Consumption in India, Smallcase, 15 October 2018

25. Economic Outlook for Southeast Asia, China and India 2018 – UPDATE, OECD, 2018

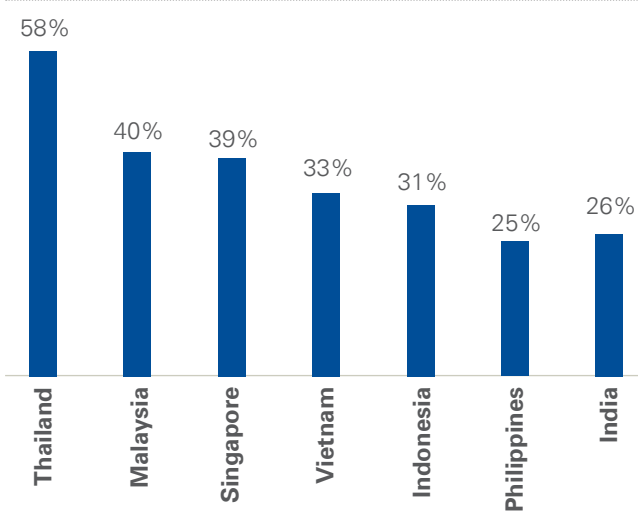
26. Income and Expenditure in Asia Pacific, Euro monitor, 17 May 2018

27. South-east Asia is getting 'smart' with urbanisation, StraitsTimes, 18 May 2018

28. India - The Top Retail Destination, Invest India, Government of India, Accessed on 9 January 2019

Increasing internet penetration: India and ASEAN have the highest internet and mobile penetration and adoption rates in the world, leading to a boost in e-commerce transactions. Mobile penetration in India is expected to reach 85-90 per cent by 2020 from 65-75 per cent in 2017²⁹, whereas smartphone adoption rate is the highest in the world at 15.6 per cent³⁰. In ASEAN countries, 130 million people have smartphones. High usage of mobile devices and the internet continues to grow, with 800 million mobile connections and 480 million internet users expected by 2020³¹. As a result, increasing internet penetration across the region, including the rural areas is expected to play a significant role in the growth of e-commerce and overall digital trade.

ASEAN-6 and India smartphone penetration, 2018^{32,33}



Favourable policy reforms:

- India: Government initiatives such as 'Make in India', 'Digital India', Innovation Fund, and Reserve Bank of India's approval of interoperability of digital wallets encouraged online penetration and entrepreneurship in the sector.
- ASEAN: ASEAN e-commerce agreement seeks to boost intra-regional cross border e-commerce transactions. For this, it includes measures such as harmonised consumer rights and protection laws, a harmonised legal framework for online dispute resolution, secure, reliable and user-friendly e-identification and authorisation (electronic signature) schemes and a personal data protection framework. Various countries in the region are taking steps to improve the digital infrastructure. For instance, in Singapore, the 'Retail Industry

Transformation Map' aims to boost the omni-channel retail sector,³⁴ while another initiative led by Singapore's 'Infocomm Media Development Authority' and 'Enterprise Singapore' is aimed at supporting atleast 10,000 SMEs looking to enter the e-commerce space in the region.³⁵

Major challenges

The e-commerce sector in India and ASEAN countries faces some unique challenges and has been constantly reinventing business models to achieve growth. However, the sector still faces few hurdles in boosting cross-border trade as it moves towards the next phase of growth.

Major challenges for e-commerce and digital growth in India and ASEAN^{36,37}:

Logistics and supply chain: Inadequate transport infrastructure, lack of warehouse readiness, inefficient last-mile delivery and inconsistent and time-consuming custom processes increase inefficiencies and cost, while making shipping of products to remote locations difficult.

Reluctance towards online payments and cybersecurity: As most ASEAN countries and India are predominantly cash-based, moving the consumer towards digital adoption has been a challenge. Further, security and reliability of payment remains a major concern for most small and unorganised businesses and consumers in developing countries. Also, inadequate security mechanisms along with lack of awareness about online transactions has been deterring consumers. However, there are multiple awareness and security programmes being implemented by various stakeholders.

Low internet connectivity in remote areas: ASEAN countries and India have relatively low internet connectivity in remote areas such as forests, mountains, islands, where a significant share of the population resides, due to limited network coverage, and high cost of setting up infrastructure in such areas.

Customs processes: Amongst most ASEAN countries, inconsistent custom procedures and transparency are areas for concern. Import procedures, Value Added Tax (VAT) and duties vary across countries and products. Although, Singapore is an exception with clear and straightforward customs and tax procedures, and low corruption in the bloc.

29. Mobile phone penetration in India set to rise to 85-90% by 2020: report, Livemint, 17 May 2017

30. Smartphone Users in India 2018: 16% YoY Growth Is The Highest In The World, Dazeinfo, 7 May 2018

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36. Lifting the Barriers to Ecommerce in ASEAN, ATKearney and CIMB, 2018

37. E-commerce in ASEAN: Seizing opportunities and navigating challenges, EDB, 5 July 2018

Access to foreign market: The ASEAN bloc's high non-tariff barriers and lack of consistent e-commerce regulations hinder smaller international enterprises from selling their products and services. Malaysia has a large number of free trade agreements that allow foreign business access, but some minor hurdles remain.

Opportunities and way forward

The internet economy in ASEAN countries is expected to reach USD200 billion by 2025, increase by four folds from USD50 billion in 2017, of which e-commerce is expected to reach to USD88 billion, from just USD10 billion in 2017.^{38,39} Owing to favourable demographics, increasing internet and mobile penetration, the demand for e-commerce is expected to increase, leading to:

- **Convergence of online and offline ecosystems:** Due to technology advancements, conventional offline sectors such as banking, retail, transportation, entertainment, and grocery are increasingly coming online. This provides an opportunity for the e-commerce sector to build a digital ecosystem to include the online versions of these conventional sectors
- **Growing number of niche start-ups:** With rapid growth of niche start-ups that use technologies such as AI, Machine Learning (ML) and robotics, the e-commerce sector can collaborate with such companies that can support them in their next phase of expansion and growth
- **Leaner supply chains, smart logistics and evolving business models:** As business models evolve and logistics become smart, the e-commerce sector has an opportunity to leverage these to support and expand operations beyond metro cities in India and ASEAN countries.

Support from the governments in both India and ASEAN countries have led to banking and telecom companies to venture into digital payment systems.

As a growing sector with huge interest from both domestic and international players, establishment of regulatory frameworks involving consumer and enterprise rights and protection is essential.



38. ASEAN countries to facilitate cross-border e-commerce transactions, TPCI, November 2018

39. ASEAN to promote cross-border e-commerce with new framework, Nikkei Asia, March 2018



Conclusion



For more than two and a half decades, India and ASEAN member countries have been working towards achieving sustainable economic growth, cultural and societal progress and regional peace. In this long and mutually collaborative relationship, several initiatives have led to a consistent increase in trade, resulting in a three-fold growth from 2009 to 2017⁰¹. There have been multiple business friendly initiatives being executed between India and ASEAN in the last few years, such as AIFTA and AEC to enable easier movement of goods, investment, capital, and workforce to improve supply chain efficiency.

However, there is additional scope to further strengthen the proximity across trade, and investment through multi-sector partnerships which can eventually unleash the true potential between India and ASEAN.

For one, integrated logistics can play a major role in increasing the efficiency of trade movement. As a result, the RVCs have been important to lay the foundation for improving manufacturing and production processes in the region as they pursue to become an integral part of GVCs. Hence, integrating logistics across road, rail, maritime and air is the need of the hour for collaborative growth of the region.⁰²

There has been substantial progress in implementing multilateral highways and multimodal projects in the India-ASEAN region, enabling a seamless movement of passenger, personnel, and cargo vehicles. It would also enable the small and medium business segment to contribute in the growth of both India and ASEAN economies. Comprehensive air connectivity between India and the region could further boost trade and commerce along with tourism prospects. Introduction of GST in India and formation of an 'ASEAN Single Shipping Market' is likely to create an efficient logistics network to facilitate the movement of goods throughout the region.

On the other hand, India and ASEAN have been agriculture-dominant economies, as 43 per cent of the population in India and a similar percentage in ASEAN countries are dependent on agriculture for their livelihoods.⁰³ Contrastingly, blue economy is becoming one of the focus areas due to abundance of resources surrounding the mainland.

Governments in the entire region are cognisant of certain common challenges, such as climate change, decreasing land base, limited water resources,

difficulty in access to capital, and volatility in product prices. They are collectively working on various solutions such as technology adoption, creating awareness of best practices among farmers, policy changes, providing easy access to capital, and diversification towards higher value crops.

Additionally, to harness the potential of blue resources, India and ASEAN are enhancing maritime connectivity that can lower logistic costs and lead to increased trade of goods, while at the same time benefit the tourism sector. India and ASEAN are also planning significant investments in the blue economy through collaborative research and investments.

On the digital front, e-commerce sectors in India and ASEAN are expected to grow at a rapid pace, as the market in India is estimated to reach USD165.5 billion by 2025, while the ASEAN e-commerce sector is estimated to reach USD90 billion by 2025. It is majorly led by rising internet penetration, rising smartphone use, a young population and an expanding middle class. Both regions are making investments to develop an ecosystem that can sustain and promote increasing digital trade.

ASEAN countries signed an agreement to jointly promote digital economy, including the creation of a new cross-border e-commerce framework. Similarly, India is also focusing on the e-commerce sector, as the government is on the verge⁰⁴ of releasing a comprehensive policy aimed to promote a robust and secure e-commerce ecosystem in the country.

However, as the adoption of e-commerce and digital trade increases, it presents its own set of security challenges. The governance of cyber space and the cybersecurity policy are still evolving and both India and ASEAN are in the process of forming an effective framework to address inter-regional cybersecurity. With ASEAN and India collaborating to harness opportunities and resolve challenges, the time is ripe for them to come together to elaborate on the mechanisms to promote cross-border e-commerce and the associated ecosystem to promote e-commerce.

With conducive economic and demographic growth factors on their side, India and ASEAN are well placed to become a force to be reckoned with in the global economic environment. In this journey, joint collaboration and adoption of technology across sectors will be instrumental.

01. Indo-Asean trade rises 10% to \$72bn in FY17, but is long way off potential, Times of India, January 2018
02. ASEAN is Refining Supply Chain Networks, Supplychain Management Networks, February 2016

03. World Bank, Accessed on 9th February 2019

04. DIIPP To Release Ecommerce Policy Soon, Says Commerce Minister Suresh Prabhu, Inc 42, January 2019



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KPMG in India contacts:

Akhil Bansal**Deputy CEO****T:** +91 124 307 4304**E:** abansal@kpmg.com**Nilaya Varma****Partner and Leader**

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T: +91 124 669 1000**E:** nilaya@kpmg.com**Neeraj Bansal****Partner and Head**

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