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Malaysia and India to gain from cooperating on trade and investment

Trade and consumption will spearhead both India's and Southeast Asia's economic fortunes over the medium term.

"By seeking to tap and complement each other's vast and growing markets, these two nascent economic powerhouses can further bolster their growth potential", said Omar Mahmoud, Co-Head of Global Banking, HSBC Malaysia.

Take a look at the numbers.

India's and ASEAN's economies, if combined, would comprise the third-largest economy in the world, spanning 18% of the planet's populationⁱ.

Crucially, affluence, while still low compared to the United States or Europe, is rising. About 550 million Indians will be defined as middle class by 2025, double the number they are today – and adding more to the global pool than any other country.

Similarly, in the ten-member Association of Southeast Asian Nations (ASEAN) region, the number of middle class households is forecast to top 120 million by 2025, roughly double what it was in 2010.ⁱⁱ

Greater mutual market access would allow both economies to get greater traction.

Of course the cultural, geographic and business diversity and – at times – commercial complexity that is inherent with such diverse economies means that doing so is not always going to be easy.

But some links are, in fact, already in place, and improving.

To boost bilateral and investment relations between India and Malaysia, US\$36 billion worth of investment deals were signed last year between both countries. These deals are related to areas such as higher learning education, port and highway construction, coconut and palm oil development amongst others.

India's North-eastern states are connecting with ASEAN through the Thailand/Myanmar Trilateral Highway and deep-sea ports.

Singapore is working with the southern Indian state of Andhra Pradesh to develop its new capital city and build its "fintech" credentials.ⁱⁱⁱ

The Philippines has witnessed a steep rise in Indian IT companies setting up business processing operations in Manila.

Indonesia supplies a third of India's total vegetable oils.

Cambodia, Laos, Myanmar and Vietnam are connecting with India's textiles operations through trade and investment.

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At present ASEAN is India's fourth-largest trading partner, accounting for 10% of India's total trade, while India is ASEAN's seventh-largest trading partner. Both sides have set a target of at least US\$ 200 billion in two-way trade by 2022^{iv} compared to US\$ 65 billion in 2015-16^v.

But all this only touches the surface of what could be possible if India and ASEAN worked to reduce the barriers that currently still stand in the way of greater bilateral trade and investment flows.

For ASEAN and India, the focus currently will be on the completion of the Regional Comprehensive Economic Partnership (RCEP) – the multi-lateral trade accord that is spearheaded by ASEAN and involves six of its Free Trade Agreement partners, including India and China, which together cover 50% of the world's population.

India has warmed to RCEP recently, committing to eliminate up to 80% of its goods tariffs^{vi} in return for greater market access to ASEAN (and other signatory members') service sectors and freer movement of its labour.

Doing so will unlock significant growth potential for India's burgeoning IT services sector, which constitutes 48% of its total exports. The conclusion of the deal could collectively boost exports amongst the participating countries by 4% going forward.

RCEP members hope to conclude the agreement in time for the ASEAN summit in Singapore this coming November.

"Improving trade accords that open the trade and investment pipes should remain the topline strategy but in the meantime, the commercial and investment ties between ASEAN and India need to grow in innovative and practical ways", said Shreyas Krishna, Head of Multinationals, Global Banking, HSBC Malaysia.

Building on the existing beachheads mentioned above is an obvious start. Utilising leadership meetings like the recent Delhi Summit that marked the 25th anniversary of the formal ASEAN-India dialogue – is another.

But ultimately the key to increased entry of foreign companies and greater mutual business ties will be through supply chains.

Take the example of Apple. The iPhone manufacturer, which already has a strong supply chain in ASEAN, last year began to manufacture iPhones in India^{vii}, to capitalise on the expected growth of smartphone ownership in that market. Only 300 million Indians currently own a smartphone; that figure set to rise by 50% in the next few years^{viii}.

The broad electronics supply chain is vital to ASEAN, making up 30% of the region's total exports. This ranges from chip testing in Malaysia to Singapore's semi-conductor foundries,, and assembly in the Philippines, Thailand and Vietnam.

What's not to say that the companies that already support Apple in ASEAN cannot follow its move to India?

There is a myriad of examples across all facets of consumption that can replicate this (think fashion, food, pharmaceuticals), and many more in future as Indian incomes rise.

"India and ASEAN may not have the heft of the US, EU or China's economies. But they are rapidly becoming economic powerhouses that play a growing role in the global economy. Deeper ties between them will help both gain further international significance", added Omar.

Against that backdrop, global conglomerates - and their regional supply chains – seeking fresh drivers of growth need look no further than these two markets.

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ⁱ S. Iswaran, Singapore Minister for Trade and Industry <https://www.iesingapore.gov.sg/Media-Centre/News/2018/1/Many-areas-of-collaboration-for-India-and-Asean>

ⁱⁱ ADB Institute: <http://www.adb.org/sites/default/files/publication/159312/adbi-asean-2030-borderless-economic-community.pdf>, see also ASEAN data: http://www.asean.org/images/2015/february/asean_publications_2014/12.%20December%202014%20-%20AEC%20Chartbook%202014.pdf; see also <http://www.asean.org/wp-content/uploads/2015/12/AEC-at-a-Glance-2015.pdf>

ⁱⁱⁱ Straits Times: "S'pore to help build southern Indian city from scratch", July 2017, https://www.mfa.gov.sg/content/mfa/media_centre/singapore_headlines/2014/201412/headlines_20141209.html

^{iv} Asean Secretariat News <http://asean.org/asean-india-reaffirm-commitment-to-strengthening-cooperation/>

^v Import Export Data Bank, Government of India, Department of Commerce: <http://www.assochem.org/upload/docs/ASEAN-STUDY.pdf>

^{vi} Live Mint: "Headway in services deal unlikely at RCEP summit", <http://www.livemint.com/Politics/QHMyl4GDufddfmHynCwQQJ/Headway-in-services-deal-unlikely-at-RCEP-summit.html>

^{vii} CNBC: "Apple begins manufacturing iPhone SE in India" <https://www.cnbc.com/2017/05/17/apple-begins-manufacturing-iphone-se-in-india.html>

^{viii} CNN Tech: India poised for smartphone revolution <http://money.cnn.com/2017/09/26/technology/india-mobile-congress-market-numbers/index.html>