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Counterweight to China?

The Potential of ASEAN's Economic Relations with India

TEMJENMEREN AO

Abstract: On August 8, 1967, the foreign ministers of Indonesia, Malaysia, Singapore, the Philippines, and Thailand met in Bangkok, Thailand and signed a document. By virtue of that document, the Association of Southeast Asian Nations (ASEAN) was born. Bloc politics of the Cold War made the formation of ASEAN a necessity for the nations of the region. It was a step to safeguarding their interests, overcoming economic backwardness, and ensuring the continuity of reconciliation by helping address the intra-regional tension due to the unresolved territorial disputes. The nations in Southeast Asia, by adopting a policy of '*Look East'* along with a mixed form of capitalism (with the government playing a prominent role in the economy) were able to enhance their economic growth. By the 1980s, ASEAN countries such as Indonesia, Malaysia, Singapore, and Thailand gained reputations as 'tigers' for their economic dynamism. Despite the economic fallout in the aftermath of the Asian Financial Crisis and also the global slowdown as a result of the 2008 financial crisis, the economic resilience and dynamism of ASEAN is viewed as a potential counterweight to China.

This paper studied the evolving contours of the ASEAN-India economic relations and highlighted how the partnership has grown substantially over the last few decades. The paper attempted to examine how this economic engagement is helping build a discourse aimed at limiting the impact from the emerging global economic realities; where nations distrust global commerce and trade for more nationalist policies. The realities of a post COVID-19 period which would be marked by a global slump and resource crunch offers further potential to strengthen the ASEAN-India relations.

Keywords: ASEAN, India, China, South China Sea, Economic Engagement, COVID-19, Technology

The Idea Behind ASEAN

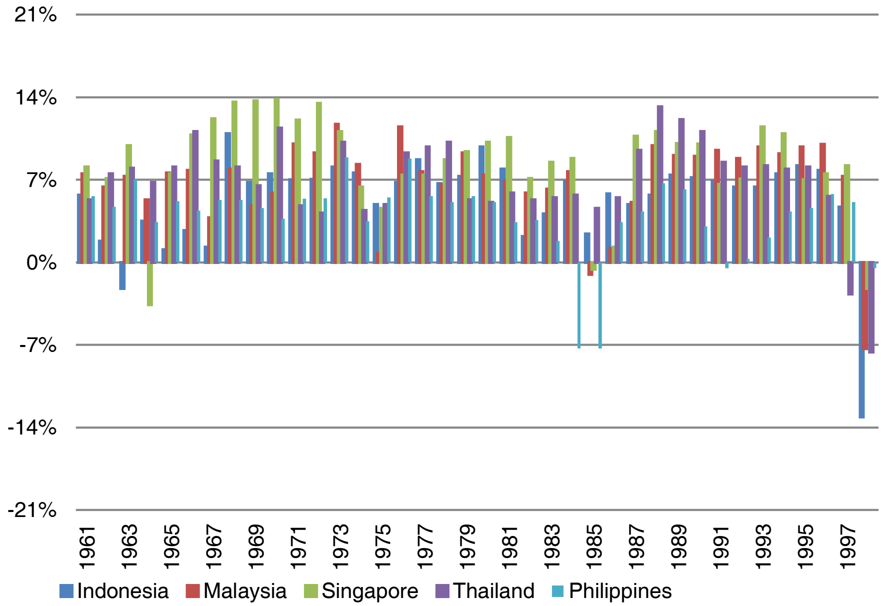
ASEAN was established in 1967 during the peak of the Cold-War. The Association has grown from the original five countries-Indonesia, Malaysia, the Philippines, Thailand and Singapore to include Brunei (1984), Vietnam (1995), Myanmar (1997), Laos (1997), and Cambodia (1999).

Southeast Asia was at the centre of Cold War rivalry and the countries felt the need to adopt a cooperative approach among each other to ensure that any form of expansionist aggression did not occur in the region. By adopting this outlook and through dialogues, members were able to resolve their differences and diffuse intra-regional conflicts, such as the 'Crush Malaysia' campaign, while preventing new ones from arising. Under the Bangkok Declaration of 1967, the formal purpose of the Association was to enhance cooperation in the economic, social, cultural, scientific, and administrative fields, that were deemed to be crucial in promoting regional peace and stability. An official commitment to political cooperation was expressed in a Declaration of ASEAN concord, while provision for regional order was contained in the Treaty of Amity and Cooperation (TAC) (Majumdar, 2003). Through their adherence to TAC, peaceful settlements of regional disputes under the principles of non-interference and decision making through consensus (also known as the 'ASEAN way') were undertaken. This became crucial to manage internal as well as external threats in order to ensure a stable political and economic environment in the region (Li, 2016).

According to the National Intelligence Estimate by U.S. Department of State issued in 1968, by leaving out the military aspect from the scope of ASEAN, the newly formed regional grouping kept its focus on the socio-economic development of the region (U.S. Department of State, 1968). The Association was right in doing so, since the ASEAN Member States (AMS) did not possess the prowess to undertake such a role in the region. By keeping security out of its ambit, ASEAN emphasised on improving its economic and cultural relations with the other member states of the Association. The partnership was based on equality amongst the members which was crucial in realising their interests by overcoming their challenges.

Figure 1

Indonesia, Malaysia, Singapore, Thailand, and The Philippines: GDP 1961-1998[1]



Note: The graph shows the nominal GDP in percentage of the five original ASEAN countries from 1961 to 1998.

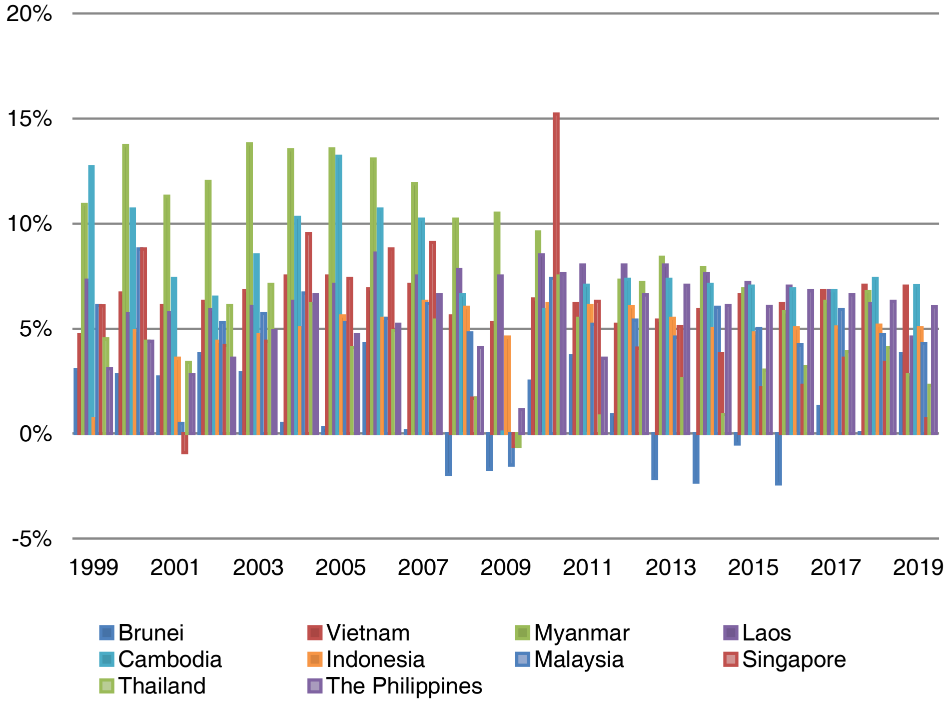
As shown in Figure 1, the five original ASEAN countries witnessed a high GDP growth following the establishment of the Association. A relatively stable regional atmosphere made it possible for member states to channel all their resources into the goal of nation-building and economic development. Many of the ASEAN states, inspired by Japan's industrialisation of the late 19th century and then its rapid recovery following World War II, began adopting a policy of 'Look East'. The adoption of a market-based economy with a heavy hand of the government in most of the ASEAN member states in the early years, helped millions improve their living standards. In terms of investments, as Southeast Asia provided multinational cooperation with low manufacturing costs between 1980 and 1996, the region's share in terms of global Foreign Direct Investment (FDI) rose from 6.7% to 14.7%. According to the United Nations Conference on Trade and Development (UNCTAD) Report (1997), out of the USD 256 billion global FDI in to the developing countries, USD 90 billion went to Southeast Asia. Thus, FDI in ASEAN increased by over six-fold since 1980 and by two-thirds since 1990 (Bartels & Mirza, 2005).

In January 1992, the ASEAN Free Trade Agreement (AFTA) was signed which enabled GDP growth of over 6 to 10% for most of the ASEAN states, as shown in Figure 1. This made Southeast Asia one of the most attractive markets for investors for its low cost and high production capabilities, until the Asian monetary crisis hit the region in 1997. As shown in Figure 1, the ASEAN states had to face the onslaught of the financial crisis that had a ripple effect across the region, with Indonesia, Malaysia, Singapore, Thailand, and the Philippines, witnessing a GDP of -13.1%, -7.3%, -2.2%, -7.6%, and -0.5% respectively.

The Asian Financial Crisis (AFC) of 1997 lead to a long and difficult recovery for the ASEAN states which now included its new members along with the original five countries. The AFC more than anything shook Southeast Asia's confidence in open trade and financial globalisation. Paul Krugman in a paper titled "The Myth of Asia's Miracle" published in Foreign Affairs (1994), wrote that the increase in labour inputs was mainly responsible for the high growth rate in Southeast Asia. However, this growth was not accompanied with the technological development needed for a sustained growth trajectory. According to Krugman, the economic progress of Southeast Asia in the 1980s was very similar to the one experienced by most Eastern European countries, which also faced collapse at the end of the 1980s (Krugman, 1994).

It was argued that growth in the absence of any fundamental increase in its labour productivity, contributed to the fragility of the markets in Southeast Asia which could not withstand the shock of the financial crisis (Nam, 2005). Further, international bodies such as the World Trade Organisation (WTO), the International Monetary Fund (IMF), and the World Bank, by enforcing the rules of globalisation resulting in the liberalisation of the financial markets, put an end to many restrictions that formerly regulated the flow of capital into and out of Southeast Asian States. On the positive side, these policies led to double digit growth and an increase in trade in many of the ASEAN states along with growth in the number of joint ventures and foreign-financed enterprises. However, this also made their economies more vulnerable and eroded their capacity to withstand the financial crisis (Dayley & Neher, 2013).

Figure 2
ASEAN Member States GDP 1999-2019[2]



Note: The graph shows the nominal GDP of all the ten ASEAN States in % from 1999-2019.

The graph in Figure 2 indicates the GDP of the ASEAN member states in the post-AFC period. The AFC of 1997 had a major economic fallout in the ASEAN countries by halting the entire growth momentum of the region. And while most of the ASEAN states were able to make some recovery, the aftermath of the global financial crisis of 2008 that led to a decline in global demand impacting trade and commerce, fuelled a further decline in growth across the region. To a significant degree, the two financial crises put many of the ASEAN states into a slower growth trajectory, which persists till today.

In seeking deeper cooperation towards addressing the slowdown of economic growth being witnessed by some of the AMS there are also other internal and external challenges. In terms of the internal challenges, the intra-ASEAN disputes and disagreements over issues such as unsettled territorial disputes amongst some of its member states is the Achilles heel for the Association. This ongoing discord over territorial claims has led to the adoption of policies by the individual ASEAN states contrary to the broad agenda of the Association. This is not only impacting the unity but also causes a lack of unanimity for the passage of any resolution towards establishing a robust economic partnership amongst the member states. The result is also being felt on the process of establishing an ASEAN economic community and its union, which would enable regional stability and security (Dibb, 2001). Apart from the internal challenges, today ASEAN is also facing a changing external environment with a stronger China which has become more assertive in the region. This is coupled with the region being at the centre of the emerging geo-political environment, which is shaping the future role of ASEAN.

China's Emergence and the Changing Role of ASEAN

The economic slowdown in the post-AFC period not only highlighted the limits of globalisation but also ASEAN's own internal weaknesses as an institution. The post-AFC and the start of the 21st century witnessed the emergence of China. Due its continuous hyper economic growth throughout the 1990s, it was able to widen the economic gap with the rest of Southeast Asia. It also subsequently helped China build its military advantage over ASEAN. China's Grand Strategy, which is based on the narrative termed the 'China Dream' is being aggressively floated today. The intent of this grand strategy is to develop China into an economically prosperous nation, with a military that is capable of safeguarding national sovereignty along with the interests of Beijing far beyond the mainland. China's definition of national sovereignty and territorial integrity is not limited to the defence of the mainland against attack. It is also being applied more widely to include the need for maritime expansion to secure its seas (Wanli, 2011).

China has numerous territorial claims, however, the need to have a stable neighbourhood has made it settle or defer most of its land-border disputes. While deferring its land-territorial claims, China has become more adamant, impatient, and rowdy over its maritime-territorial claims (Gompert, 2013). Much of China's economic success can be attributed to the operations of multinational companies that import components from Asia, assemble goods using Chinese workers, and export the finished products to markets in the U.S., Europe and elsewhere. One of the consequences of this was the increase in the demand for energy in order to fuel its manufacturing sector which became a major pillar for China's economic modernisation (Saunders, 2010).

Until 1993, China was not concerned so much about energy security as it was an exporter of energy resources. However, the rapid economic modernisation and growth that witnessed a spike in demand in the 1990s along with a stagnant domestic supply, saw China transforming from a net exporter to a net importer of energy resources. Further, as a latecomer to the international energy markets as well as China's physical distance, and the presence of western oil companies in every resource rich region, made it difficult to gain a secured possession over oil and gas fields (Panwar, 2009). This factored into China's maritime expansion in the disputed South China Sea (SCS), where it became more assertive over its claims causing an imbalance to the regional order as being witnessed today.

China is already asserting itself militarily through the deployment of its naval forces at strategic locations in the SCS. This military posturing is being used to reinforce its claims to the disputed islands and reefs in the SCS. The need to assert its claims in the SCS through its military presence emerges from China's dependence on maritime trade which is crucial for its commercial interests (Duo, 2012).

The situation in the SCS continues to remain tense with China increasing its assertiveness over the disputed islands and reefs. China has increased its military presence in the region and in particular its naval build-up along with the construction of artificial islands by increasing the area of landfills around the existing islands and reefs. IHS Jane's Defence Weekly, in 2015 reported that the Chinese infrastructures developed in the disputed sites were explicitly military in nature. Satellite images indicate that these artificial islands have helipads, airstrips, harbours, and facilities to support large numbers of troops. According to U.S. officials, China seeks to establish an Air Defence Identification Zone [ADIZ] through the new infrastructure that would be used to enhance radar coverage of the area, support a small presence of military personnel, and provide logistic support for ships patrolling the farther reaches of the SCS (Page & Barnes, 2015). While China and ASEAN are working towards finalising a draft Code of Conduct (COC) for the SCS, differences on its modality remain. Over the last few years the ongoing dispute between China and the ASEAN states, that have maritime claims and rights over the resources in the SCS, have escalated. The AMS are wary of any form of conflict in the SCS as it may impact the sea lines of communication throughout East and Southeast Asia (Majumdar, 2003).

China's repeated intrusions into the Exclusive Economic Zone (EEZ) of the other parties are challenging the existing status quo and undermining the security and stability in the region. China's assertion in the disputed waters through the deployment of its naval crafts and other illicit activities being carried out, has been possible due to its increasing economic power. However, the changing internal and external environment could pose some challenge to its economic growth which has be crucial in fuelling Beijing's outreach.

Factors Limiting China's Momentum

The Economic Fallout of the 2008 Global Financial Crisis

At the turn of the 21st century, China emerged as a major economic power by adopting an aggressive mercantilist trade policy and currency intervention undertaken by its government, which helped make its exports more competitive compared to its competitors. While China's accession into the WTO in 2001 led to it adopting a more liberal trade policy it was done so in order to gain further access to the large Western markets (Blumenthal, 2007). As a consequence, its dependence on foreign trade as a driver of its economy increased sharply, with the ratio of total imports and exports to GDP of 43.8% in 2000 increasing to 63.9% in 2005 (Jianwu, Shantong & Polaski, 2007). China being an export driven economy has continued to witness a decline in its GDP which is attributed to the changing external as well as internal environment.

One of the major impacts of the 2008 global financial crisis was a sharp decline in global demand resulting in the contraction of trade and commerce. China's exports fell by as much as 20% in early 2009, and since its economy is highly dependent on foreign trade, with 40% of its GDP being driven by exports, it had an impact on its economic growth. When foreign demand dropped sharply, a large number of factories located in the southeast of China, who were mainly exports-oriented, closed down. The same period also saw a fall in China's foreign investments. In the first half of 2009, FDI into China decreased by 17.9% according to the 2009 World Investment Report issued by the UNCTAD. This was the first time in 30 years that China's FDI receipts dropped dramatically (Sun & Fu, 2012). Prior to the financial crisis, China witnessed a sustained double-digit GDP growth rate reaching a high of 14.2% in 2007. The crisis had an adverse impact on China's economic growth with its GDP declining to 9.6% in 2008 (National Bureau of Statistics of China, 2008).

China's Emerging Debt-Crisis

Internally, there is the growing debt to GDP crisis which China is currently facing. In order to limit the negative impact of the 2008 global financial crisis, China launched a major investment programme in the second half of 2008 and 2009, which saw credit expansion and large-scale investment in real estate and infrastructure. The results of China's stimulus programme were impressive, making China the first globally significant economy to begin to recover from the global economic recession. As the stimulus package began to take hold, China's growth accelerated significantly, to 9.5 and 11.4%, respectively, in the first and second quarters of 2009 (Lardy, 2012). This expansionary fiscal policy approved by the People's Congress in 2009, led to a total government deficit of 950 billion Yuan (US $ 139 billion), the highest in six decades (Sun & Fu, 2012).

According to a report by McKinsey Global Institute, China's debt has quadrupled since 2007, rising to USD 28 trillion by mid-2014, from USD 7 trillion in 2007. At 282% of GDP, China's debt is larger than that of the United States or Germany (Dobbs, Lund, Woetzel & Mutafchieva, 2015). According to some estimates, China's total debt hit 237% of GDP at the end of the first quarter of 2016 (Wildau & Mitchell, 2016). According to the Institute of International Finance, China's debt-to-GDP ratio rose 11 percentage points in 2019 to 310%, and rose a further 7 percentage points in the first quarter of 2020 to reach 317% (China's Debt to GDP Ratio Surges, 2020). The IMF has warned China on the risk of its growing debt burden, and urged more aggressive action to curb its credit growth. There is the possibility of high-risk spill-overs to the broader global economy if its debt burden, due to its excessive credit, is not contained (Wildau & Mitchell, 2016).

The Unfavourable Demographic Profile

The evolving issue of an unfavourable demographic profile that China would witness in the future because of its 'one child policy' is another factor. From 1980 to 2000, the average annual growth rate for the total population was about 1.3%, while the working-age population grew at an average of over 2% (Jianwu, Shantong & Polaski, 2007). Realising the impending demographic challenge, the 5th Plenary Session of the 18th Chinese Party of China Central Committee (November 2015), recommended expansion of the policy to two children per couple. According to a 2015 World Bank report, China's working age population is expected to decline, and labour's contribution to growth will turn negative. This would also lead to an ageing population which would cause a shortage of not only human resource but also a fall in the rate of savings which in turn would cause a fall in China's capital formation (World Bank, 2015).

Withdrawal of Foreign Corporation from China

Another factor impacting China's growth today is the outflow of foreign companies with their manufacturing bases in China to other countries in Southeast Asia. One of the reasons for this is due to the minimum wage levels in China which have been increasing steadily over the last decade. Driven by rapid economic growth, declining population growth, and with workers becoming better organised, employers in many sectors were forced to pay higher wages in order to recruit and retain staff. Further, in March 2004, Minimum Wage Regulations were implemented by the then Ministry of Labour and Social Security which established a comprehensive framework for calculating and adjusting the minimum wage. The new regulations took into consideration the minimum living costs of local employees and their dependents, consumer price index for urban residents, social security and housing fund contributions paid by individual employees, the level of economic development, and the supply and demand of labour in the locality (China Labour Bulletin, 2019).

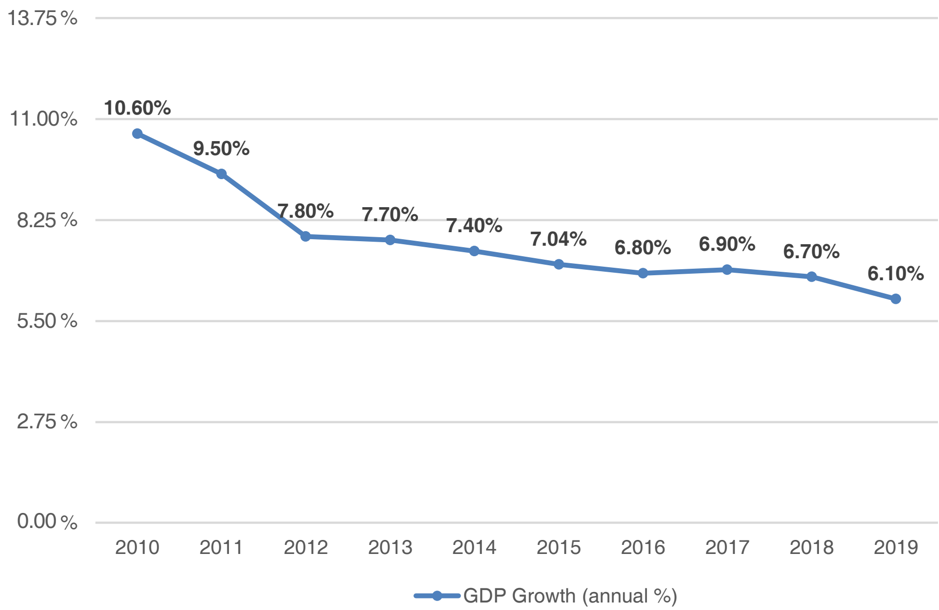
Based on these new regulations, there has been a substantial increase in the level of China's minimum monthly wages. This has made China less attractive to foreign investors today who, in the past, ventured into China to secure business contracts in order to take advantage of its low-cost labour and increase their profit margins. The rise of labour costs in China's manufacturing sector has thus, led to foreign manufacturers moving away from China into other low labour cost nations in Southeast Asia such as Cambodia and Vietnam (Ao, 2019).

The COVID-19 pandemic and the uncertain outcome of China's ongoing trade tension with the U.S. is further affecting its growth. For the first quarter of 2020, due to the COVID-19 outbreak, China's economy posted its first contraction in decades, falling to -6.8% according to data from China's National Bureau of Statistics (Huimin & Nian, 2020). And while China's economy witnessed a modest growth of 3.2% in the second quarter of 2020, its growth for the remaining quarters for this year would depend on the recovery in the West and its bilateral trade with ASEAN, which over the years has increased dramatically (Wenbo & Nian, 2020).

The disruptions to the supply chains due to the pandemic and the trade war with the U.S. is making foreign companies re-assess their long-term strategy in China. Today, major foreign corporations that include Original Equipment Manufacturers (OEMs) of automobiles and computers, are shifting their plants out of China into other countries in the region. Other Asian countries, including ASEAN member states, have stepped up efforts to attract foreign investments by targeting companies that are rethinking their supply chains in the wake of the disruption caused to the supply chain across China (Jibiki, 2020).

These factors have impacted China's growth as indicated in figure 3 where its GDP, from a high of 10.6% in 2010, has continued to decline. In 2016, its GDP fell below 7% for the first time since at least the early 1990s after its economic reform was launched in 1978.

Figure 3[3]
China GDP Growth (annual %), 2010-2019



Note: The graph shows China's nominal GDP growth in percentage, between 2010 to 2019.

The Changing Role of ASEAN

According to Chapter one, Article one of the ASEAN Charter, the primary purpose of the association is to maintain and enhance peace, security and stability and further strengthen peace-oriented values in the region (ASEAN, 2008). The emerging traditional and non-traditional security challenges in the 21st century along with an assertive China and its claims in the SCS, has pushed ASEAN to establishing a security community in order to help bring conflict resolution and reduce the threat or use of force (Weatherbee, 2013). ASEAN has begun to seek a multilateral approach towards building partnerships in order to reduce the increasing tensions in the region. The establishment of the ASEAN Regional Forum, the East Asia Summit, and the ASEAN Defence Ministerial Meeting Plus, indicate emerging security challenges that are impacting the regional stability (Dibb, 2001).

With the evolving discourse on security expanding in scope and becoming more complex, economic necessity remains crucial in building any new partnership. China's illicit activities, particularly in the SCS, remain far from benign, in fact, they seem to be escalating. China, by stepping up its activity in the disputed SCS during the pandemic, has offset the gains of its economic regionalism that spurred growth especially in the less-developed ASEAN states. At the 36th ASEAN Summit held on June 26, 2020, while not specifically mentioning China, the Chairman's Statement clearly raised concerns about the ongoing activities in the SCS that include land reclamation activities and serious incidents which, as expressed, have eroded trust and confidence and could undermine peace, security, and stability in the region. The statement emphasised the importance of non-militarisation and self-restraint in the conduct of all activities by claimants and all other states, including those mentioned in the Declaration of Conduct (DOC) that could further complicate the situation and escalate tensions in the SCS (Chairman's Statement of the 36th ASEAN Summit, 2020).

While China agreed with ASEAN for peaceful negotiations through the 2002 DOC, nonetheless, by constantly engaging its naval power to assert its claims, today China is witnessing pushback from ASEAN and its member states that are not willing to be undermined despite the prevailing power asymmetry. As a result, ASEAN is beginning to incorporate security as part of its mandate to ensure stability in the region which is crucial for promoting trade and commerce.

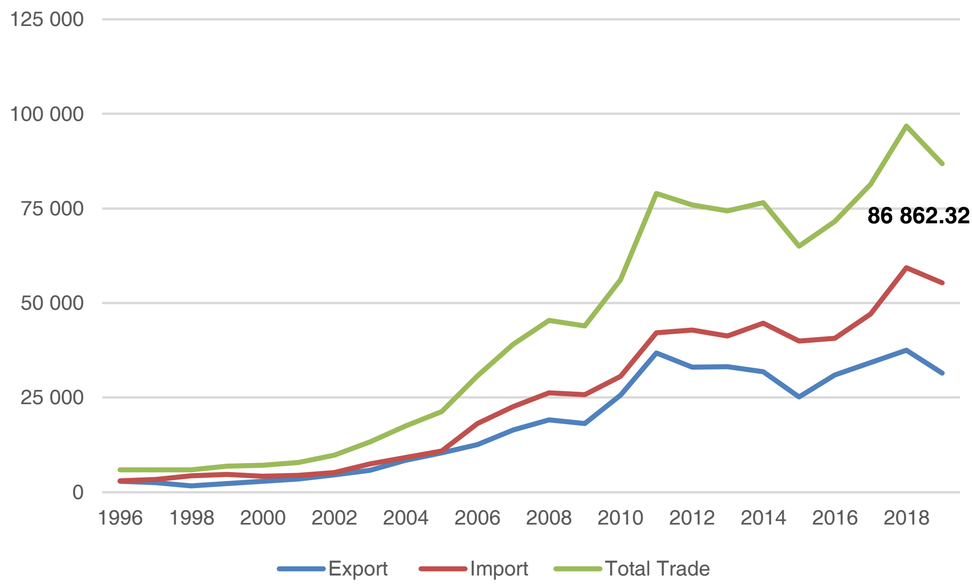
India is also concerned about the growing Chinese assertiveness in the Indian Ocean region along with the transgression on its land borders. In an effort to address security challenges through partnership, India and ASEAN signed a Strategic partnership in 2012 which was a natural progression given their deep historical and cultural ties. Further, no direct conflicts exist pertaining to territorial disputes between India and ASEAN countries and both sides share the principle of non-interventionism in the affairs of the other states. Uncertainties brought about by the financial crises of the past to the retreat being witnessed in the existing multilateral trading order, and now the pandemic, have opened opportunities for India and ASEAN to further build their economic cooperation.

ASEAN-India Economic Engagement

India and ASEAN began to rapidly expand their economic relations in the post-Cold War period. India's 'Look East' policy in 1991 focused on expanding relations with ASEAN, with economics at its core. This new diplomatic outreach provided dividend as India's two-way trade with ASEAN more than doubled to USD 6 billion from 1992 to 1996, and crossed USD 10 billion in the year 2002 (Jha, 2010). India and

ASEAN signed the Comprehensive Economic Cooperation Agreement (CECA) on October 8, 2003, in Bali, Indonesia, to institutionalise a framework for future economic cooperation (EXIM Bank India, 2018). India also began building bilateral economic relations with the individual AMS such as implementing the Early Harvest Scheme (EHS) with Thailand on September 1, 2004, and the CECA with Singapore and Malaysia in August 2005 and July 2011 respectively.

Figure 4[4]
The graph shows India's Export, Import, and Total trade with ASEAN in USD million, between 1996 to 2019



Note: The graph shows India's Export, Import, and Total trade with ASEAN in USD million, between 1996 to 2019

The graph shows India's Export, Import, and Total trade with ASEAN in USD million, between 1996 to 2019 The graph in figure 4 indicates the bilateral trade between India and ASEAN which has been increasing over the last two decades. India was seen as an important partner for ASEAN to help circumvent the economic slowdown in the post- 2008 financial crisis period which was marked by a major decline in global trade and commerce. The two signed the India-ASEAN Trade in Goods Agreement in September 2009 which came into effect in January 2010 and the Agreement on Investment and Trade in Services which was signed and came into effect on July 1, 2015. The signing of these agreements has had a positive impact on the economic engagement with total trade increasing sharply since 2010, as indicated in figure 4. India-ASEAN trade was USD 86.86 billion in 2019 and it is estimated to reach USD 300 billion by 2025 (India-ASEAN bilateral trade may double by 2025 to USD 300 billion: Study, 2019).

The ASEAN-India FTA provided Indian industries and exporters opportunities to expand operations and explore other areas of investment in the ASEAN markets. A significant proportion of Indian global outward FDI (OFDI) stock is in ASEAN, which remains a major investment destination for Indian companies. A majority of Indian OFDI go to service sector industries, primarily in banking and finance, IT and IT-enabled services (ITeS). Indian manufacturing OFDI in ASEAN is significant in metal and transport equipment industries. According to a joint ASEAN-UNCTAD Investment Report published in 2017, Indian manufacturing investments are about 32% of the OFDI concentrated in technology-intensive industries and during 2005–2015, the medium-technology industry, namely basic metals and fabricated metal products, accounted for the largest share, followed by the high-technology industry such as motor vehicles and other transport equipment with a 34.3% share. These two industries received about 72% of Indian manufacturing OFDI flows to the region. In addition, Indian investment in pharmaceuticals has grown rapidly in recent years, particularly in 2015. Indian investment activities in services in ASEAN have expanded rapidly during 2005–2015 and were 62% of the total Indian OFDI. The bulk of these investments went to communication services, followed by construction, and transportation and storage. Professional services, scientific and technical activities, and IT and ITeS services are also significant and growing. ASEAN is also a major source of FDI to India with a total investment of USD 45 billion in cumulative FDI equity capital during 2010–2015, which represented 16% of FDI flows in India. Singapore accounted for the lion's share of FDI into India. Most of the ASEAN companies are involved in India's infrastructure development and other services industries. As is evident, the bilateral investment relationship between ASEAN and India is growing stronger (UNCTAD, 2017).

India's economic engagement with ASEAN over the last two decades has increased substantially. However, in terms of trade, there is emerging asymmetry. While India's exports to ASEAN have been increasing, its imports have witnessed a much higher jump, leading to an increasing trade deficit. In order to address the increasing trade asymmetry and establish a more balanced trade, during the 16th ASEAN Economic Ministers-India Consultation, held on September 10, 2019, in Bangkok, both sides reached an agreement to review the existing Free Trade Area (FTA). In a written reply to the Upper House of the India Parliament (Rajya Sabha) on November 29, 2019, the Commerce and Industry Minister of India, Piyush Goyal, stated that the proposed scope of the review of the ASEAN-India FTA could include: implementation issues, rules of origin; verification process and release of consignments; customs procedures; would consider negotiations on further liberalisation of trade in goods; and sharing and exchange of trade data (India-ASEAN FTA review, 2019).

The India-ASEAN Partnership in a Changing Global Economic Environment

Security challenges in the past two decades has ushered the need for ASEAN to build a new narrative for multilateral partnerships. China has emerged as ASEAN's largest trading partner after their FTA came into effect in 2010, nonetheless, its increasing assertiveness, particularly in the SCS, remains a concern. The AMS are today attempting to find the right balance between engagement and containment of China (Mohan, 1995). The AFC altered the power symmetry between China and ASEAN in favour of the former. However, the consequences of the global financial crisis of 2008, the ongoing trade tension with the U.S. along with the internal changes taking place in China have eroded some of its growth momentum resulting in a mixed outcome. China has been able to consolidate its economic leadership amongst some of the ASEAN countries by pushing economic regionalism through the Greater Mekong Subregion initiatives. ASEAN states on the other hand, by taking advantage of the changing economic environment along with their own rapid economic growth, are emerging as China's competitors in certain sectors such as manufacturing. Some of the ASEAN countries, by developing their manufacturing capacities and capabilities, have integrated and are part of the Global Value Chain (GVC). Further, by offering low-cost manufacturing alternatives they are becoming a strong competitor and a viable option to the various multinational companies that are looking to move out of China.

The global economy has still not fully recovered from the economic fallout of the 2008 financial crisis which has had an impact on global trade and commerce. This global slowdown has also resulted in the increasing resistance to the global liberal economic order with restrictions on the free flow of trade. This has led to a call for greater multilateral cooperation and dialogue amongst institutions and countries. In the midst of these challenges, the world is also witnessing an unprecedented health crisis with major economic implications.

India and the ASEAN countries are facing the onslaught of the pandemic with their growth projections being downgraded for the current fiscal year. The Asian Development Bank has estimated the growth for Southeast Asia to decelerate to 1.0% in 2020 on account of COVID-19 (Asian Development Bank, 2020). As the outbreak spread, it has impacted the economies of Southeast Asia which are centred mainly on tourism and export-oriented industries. The imposition of travel restrictions has impacted the tourism sector and the disruption of supply chains and temporary shutting of plants is affecting the ASEAN economies that rely on export-led growth (Ao, 2020).

The Reserve Bank of India (RBI) in May 2020, projected that India's GDP growth on account of the COVID-19 during 2020-21 is likely to remain in negative territory. The World Bank projected India's economy to shrink by 3.2% in the current fiscal year while international rating agencies like Moody's Investors Service, Fitch Rating and S&P Global Ratings have all predicted a 4-5% contraction (Indian economy to contract, 2020). In this emerging scenario, ASEAN and India would be crucial partners for a post-COVID-19 economic recovery through greater intra-regional trade. India and ASEAN need to further build their partnership and look at the crisis for the opportunities it presents. COVID-19 has revealed major flaws in the existing supply chains such as single-source dependencies which led to production and supply across the globe coming to a halt (Cordon & Buatois, 2020). Experiences from the outbreak of the pandemic are pushing foreign companies, including OEMs, to move towards establishing flexible and adaptable supply chains. This move towards more flexible and multi-level sourcing provides an opportunity for India and ASEAN countries, such as Indonesia, that are looking to enhance their manufacturing sector and participation in the GVC (Making India an Alternative Supply to China, 2020). As mentioned earlier, some of the ASEAN countries are already well integrated and have one of the highest GVC participation indices in the world, and would be an ideal partner for India (EXIM Bank India, 2018).

While many of the global corporations are reworking their long-term strategies and looking to withdraw from China, there is also a sharp decrease in foreign investment into emerging Asian economies. On account of the pandemic, foreign investors today are looking to invest closer to home for sourcing. Further, with falling demand and disrupted supply chains, many multinational enterprises have already slowed their capital expenditure in the wake of declining profits. This results in lower reinvested earnings and, as a consequence, is leading to a decline in the FDI inflows being witnessed in all the emerging economies in Asia. However, this would be a short-term hurdle. In the long-term, supply chains will continue to evolve and re-invent through the adoption of new technologies and thus, would be dependent on pricing irrespective of the distance of the supply source (Thapar, 2020).

Many of the ASEAN countries have already been offering incentives for new companies to move factories from China in light of the U.S.-China trade war. For instance, Indonesia plans to set up 19 industrial parks by 2024. It is also cutting the corporate tax rate to 22% from 25% this year, then to 20% in 2022, a year earlier than it had previously planned. Malaysia, as part of its economic package announced in June, offered a 15-year tax exemption for manufacturers that are willing to invest 500 million Ringgit (USD 117 million) into the country (Jibiki, 2020). India has also been promoting the development of its domestic manufacturing sector as part of its 'Make in India' initiative and, as mentioned earlier, is keen to get integrated into the GVC. Over the last few years, India has undertaken reforms that resulted in the deregulation of FDI rules for several sectors. In 2019, India was amongst the top ten countries in terms of attracting foreign funds into a variety of sectors including services, technology, IT and telecom, and construction. The role of FDI for India and ASEAN countries cannot be overstated since it brings the capital that helps in the upgrading of supply chains and removes inefficiencies. Further, foreign capital also brings the technologies and experience that helps build not only the capacity but also the capabilities in the region (Bhasin, 2020). The enhanced capabilities along with a deeper partnership between India and ASEAN has the potential to become a growth engine which would be crucial in fuelling the global economic recovery in the aftermath of the pandemic.

Conclusion

While the actual economic cost of the COVID-19 pandemic is yet to be measured, it has already caused major disruption to the flow of trade and commerce (including tourism) and impacted economies and livelihoods across the globe. The economic fallout from COVID-19 would be a major challenge marked by a further decline in global demand in the post-pandemic period. The economic recovery process would also be shaped by a global environment where there would be the further resurgence of the antithesis to globalisation. This new environment, with a weaker economic system and marked by increasing mercantilism tendencies being adopted by some countries, will put stress on the economic health and make the recovery a long and uphill challenge.

The economic growth and resilience that India and the ASEAN states has showcased over the last decades has enabled them to become a part of the global economic machinery and today they are being invited to take part at the high table of premiere economic arrangements. While both have witnessed economic slowdowns in the past, their resilience has made them emerge stronger by adapting and building new partnerships. In the advent of COVID-19 and the economic uncertainties of the trade war with the U.S., global corporations are moving out of China and looking to relocate. India and ASEAN are viable options with their favourable demographics, massive consumption, and their adaptability to new technologies which enable production efficiency while being cost effective. COVID-19 has altered the world permanently and it has also impacted the way businesses will be carried out in the future. In this changing economic environment, technology, which includes automation and digitalisation, will become even more crucial. India and ASEAN need to accelerate their economic partnership through greater intra-regional trade. Further, this partnership needs to become more agile by deepening cooperation in the technology sector. The 'Make in India' initiative while looking to enhance India's domestic manufacturing capabilities, also provides a platform to build partnerships. The India-ASEAN partnership, through co-production and co-development, would enhance production capabilities, which are required in a changing global economic environment. As the future of global trade and commerce will be technology driven, innovations and capacity building will be fundamental in establishing the India-ASEAN partnership as an alternative to the pre-existing driver of global growth.

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Endnotes

1 Source: Author's combination based on World Bank Database

2 Source: Author's combination based on World Bank database

3 Source: https://data.worldbank.org/indicator/NY.GDP.MKTP KD.ZG?locations=CN&view=chart

4 Source: Author's combination based on Export-Import Databank, Department of Commerce, Government of India.