

INDIA-ASEAN BILATERAL TRADE: HUGE UNTAPPED POTENTIAL FOR INDIAN PHARMACEUTICAL INDUSTRY

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ABSTRACT

India is the fastest growing economy among the major economies in the world. India's pharmaceutical industry is estimated to be worth US \$ 26 billion which is expected to touch the benchmark of US \$ 55 billion by 2020 with compound annual growth rate of 22.4 %. India holds the position of largest supplier of generic drugs (20 % of global export volume) with Pharmaceuticals export figured around US \$ 15.329 billion in 2015 with annual growth rate of 7.55 %. The no of USFDA approved manufacturing plants rose to 201 in FY2015-16, up from 109 approvals received in FY 2014-15. India is slated to be in top three pharmaceutical markets till 2020 in terms of incremental growth.

India's GDP is around US \$ 2 trillion which ranks eighth in the world at current prices. Association of south East Asian nations ASEAN is group of nations formed in 1967. This is among the fastest growing trade blocks in the world having US\$ 2.4 trillion GDP at current prices which is 3.3 % of the world GDP. ASEAN secure 7.6 % trade in goods ranking fourth in the world & has promising growth rate of 4.7 %. ASEAN's global trade has been doubled in last decade. India after economic liberalization in 1991 initiated 'Look East' policy with a vision of developing trade with eastern nations having major expectation from this group. Look east policy has been transformed into "Act East" under incumbent Government. Recently Free Trade Agreement has been forged to promote trade with this region.

KEYWORDS: India, ASEAN, Pharmaceuticals, Trade.

INTRODUCTION

ASEAN – ASSOCIATION OF SOUTH EAST ASIAN NATIONS

ASEAN came into existence on 8 August 1967 in Bangkok by the five Member Countries Indonesia, Malaysia, Philippines, Singapore and Thailand. In the next development Brunei

Darussalam on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997 and Cambodia on 30 April 1999 joined the group. The formation of this group has its ramifications in cold war between two giants of the time USA & USSR. These two economic & military heavyweights competed to pull the other countries to their fold. In such turbulent times south east Asian nations joined hands with the objectives to promote the economic, social and cultural development of the region through cooperative programs, to safeguard the political and economic stability of the region against big power rivalry and to serve as a forum for the resolution of intra-regional differences.

Association of South East Asian Nations (ASEAN) comprising 10 nations, if considered as a single entity, would rank as the third largest populated territory with 629 million after China & India posing as huge market in Asia. ASEAN is on the brink of major economic and demographic transformation. Its GDP has been almost doubled to touch the figure of US \$ 26 Billion between years 2007- 2014. ASEAN's international trade has almost doubled over the last decade which stands around US\$ 2269.9 Billion it has increased almost by US \$ 1 Trillion. Foreign-direct investment (FDI) has been flowing into the region, with multinationals keen to capitalize on its rapidly expanding middle class and strategic location at the intersection of China, Japan and India. ASEAN has attracted FDI of US \$ 136 billion around 11 % of total FDI of the world. This figure was only 5 % in 2007. The region's GDP per capita (PPP) increased by 56.1% from US\$ 7,052 in 2007 to US\$ 11,009 in 2015. Singapore and Brunei Darussalam were among the top 5 economies with the highest GDP per capita (PPP) in the world. In 2015, ASEAN's total trade stood at 2.3 trillion US\$, accounting for 7.6% share of the world's total trade; and placed fourth after China (13.8%), USA (13.6%) and Germany (8.0%). Total trade in pharmaceuticals is flourished around US \$ 19.189 Billion. In year 2015 pharmaceuticals import from the world stood around US \$10.80 Billion & India's share was of US \$ 886 Million (8.20 % of total import). European Union remained largest supplier of pharmaceuticals 5.22 billion US \$ followed by USA US \$ 1.24 Billion, China US \$ 377 Million & Japan US \$ 204 Million. Pharmaceuticals were mostly imported from European Union which constitutes around 5.1 % in its total import from same group. India has huge potential in elevating its pie in pharmaceutical export to the region.

Member Nations of ASEAN**Table No. 1**

Country/ Region	Total Land Area(Sq Km.)	Population (Million)	Gross Domestic Produce			
			At Current Prices		Per Capita	
			US \$ Million	PPP \$ Million	US \$ Million	PPP \$ Million
ASEAN	4,488,839	628,937	2,431,969	6,923,966	3,867	11,009
CAMBODIA	181,035	15,405	18,463	55,125	1,198	3,578
INDONESIA	1,913,579	255,462	857,603	2,837,663	3,357	11,108
LAO PDR	236,800	6,902	12,639	37,729	1,831	5,466
MALAYSIA	330,290	30,485	294,390	808,308	9,657	26,515
MYANMAR	676,577	52,476	65,392	276,796	1,246	5,275
PHILIPPINES	300,000	101,562	289,503	735,382	2,850	7,241
SINGAPORE	719	5,535	291,938	470,593	52,744	85,021
THAILAND	513,120	68,979	395,726	1,108,092	5,737	16,064
VIET NAM	330,951	91,713	193,407	557,931	2,109	6,083

Note: PPP- Purchasing Power Parity

Source: ASEAN Secretariat and IMF-World Economic Outlook 2016.

DEVELOPMENT OF INDIA –ASEAN RELATIONS

It was the era of cold war when world was bipolar, dominated by USA & USSR, These giants forged multiple treaties & agreements to swell their list of allies, the economic & geopolitical activities were hardly bereft of these heavyweights. In such times ASEAN came into existence. Initially due to being a torch bearer of Non alignment Movement & having been under influence of Nehru's foreign policy ASEAN was neglected by India. It came year 1991 when India under the visionary leadership of P.V. Narsimha Rao & Dr. Manmohan Singh started a new journey of economic liberalization. During this phase India announced its "Look East" policy in an attempt to expand its trade on eastern front by fomenting engagement with the East Asian countries. Consequently, in 1992, it became a sectoral dialogue partner of the Association of Southeast Asian Nations ASEAN, aiming to accelerate economic growth, social progress and cultural development among its members, protect the peace and stability of the region, and provide opportunities for the member countries to discuss their differences peacefully. India became a Full Dialogue Partner of ASEAN in 1995 and a member of the ASEAN Regional Forum (ARF) in 1996. India and ASEAN signed a Framework Agreement – the Comprehensive Economic Cooperation Agreement (CECA) – on 8 October 2003 with an objective to provide an institutional framework that would enable economic cooperation to materialize. Negotiations on a trade in goods agreement between India and ASEAN were started in March 2004. The negotiations continued for six years and

finally the India-ASEAN Free Trade Agreement (AIFTA) was signed on 13 August 2009 in Bangkok during a meeting of the Economic Ministers of ASEAN. The agreement, which only covers trade in goods between India and the ASEAN members, came into effect on 1 January 2010. The ASEAN-India Agreement on Trade in Services and Investment was concluded in 2014 and has become operational from 1 July 2015. It provides business certainty to service providers from both India and ASEAN countries and is expected to strengthen business and commercial relations between ASEAN and India.

In pursuance of the 'Look East' policy, which has been a major pillar of the country's foreign policy since the early 1990s, India has developed multi-faceted relationship with ASEAN countries both bilaterally and multilaterally. Taking this to the logical next phase, the 'Act East' policy of the Government of India endeavors to cultivate wide-ranging economic and strategic relations in South-East Asia. India's trade with ASEAN was US\$ 58.55 billion in 2014-15 and accounts for about 10 percent of India's total trade. ASEAN, as a bloc, has become one of India's largest trading partners in recent years. India's four major trading partners from ASEAN are Singapore, Indonesia, Malaysia and Thailand, accounting for more than 80 percent of India's trade with ASEAN. The ASEAN-India Agreement on Trade in Services and Investment provides business certainty to service providers from both India and ASEAN countries and is expected to strengthen business and commercial relations between ASEAN and India. It will also open up opportunities of movement of both manpower and investments between India and ASEAN.

The India-Singapore Comprehensive Economic Cooperation Agreement became operational from 1 August 2005. The second review of CECA is underway. A Comprehensive Economic Cooperation Agreement was signed with Malaysia on 18 February 2011. Dialogue was held to have Comprehensive Free Trade Agreement with Thailand in October 2003 which ended successfully in September, 2004.

ASEAN TRADE WITH WORLD

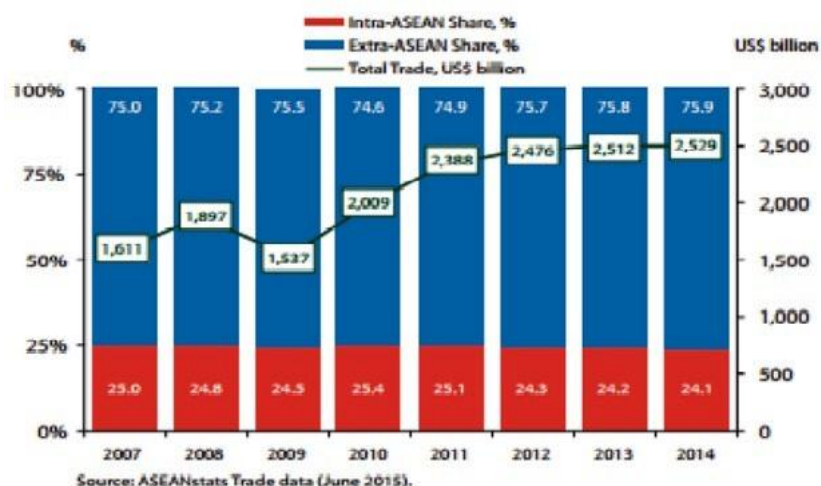
ASEAN's total trade reached US\$ 2.5 trillion in 2014. In terms of trade share, total intra-ASEAN.

Trade (amongst member nations of ASEAN) has not fluctuated significantly over the period, with a slight decline from 25.0% in 2007 to 24.1% in 2014 (Graph no. 1). The ratio of ASEAN's total trade to nominal output remains considerable, at 98.3% in 2014 though it has

fallen from a high of 123.4 % in 2008. Intra-ASEAN trade increased at a faster rate than either overall ASEAN trade or extra-ASEAN trade, with annual growth averaging at 10.5% as compared with 9.2% and 8.9%, respectively (between 1993 and 2013) for overall ASEAN trade and extra ASEAN trade respectively. Total trade posted a six fold increase since the beginning of AFTA, from US\$ 430 billion in 1993 to US\$ 2.5 trillion in 2013. Intra-ASEAN trade has surged by more than sevenfold in the same period from US\$ 82 billion to US\$ 609 billion, while extra-ASEAN trade grew more than five times, from US\$ 348 billion to US\$ 1.9 trillion. The share of trade in total ASEAN GDP has experienced a moderate increase from 91% in 1993 to 105% in 2013, dipping to 101% in 2009 after peaking at 134% in 2005. With intra-ASEAN trade growing faster than extra-ASEAN trade, its share in overall ASEAN trade has been on an increasing trend from 19.2% in 1993 to 22.0% in 2000 and 24.2% in 2013. Trade with ASEAN+6 comprised almost 60% of ASEAN trade in 2013, while trade with EAS countries represented more than two-thirds of ASEAN trade. The dominance of developed countries in ASEAN trade has been on a decline. In particular, the trade shares of USA, Japan and EU-28 have been reduced, while China has emerged as ASEAN's biggest trade partner since 2011. China's share in ASEAN trade increased from 4.3% in 2000 to 14% in 2013, while the shares of USA, Japan and EU-28 declined from around 16%, 15% and 14% in 2000 to 8%, 10% and 10% in 2013, respectively. ASEAN trade with China since 1994 showed an increasing deficit. The same trend was observed in ASEAN trade with Republic Of Korea and Russia, although at a smaller magnitude. On the other hand, ASEAN's trade deficit with Japan has declined significantly. Overall, ASEAN has recorded a surplus in its trade with Australia and New Zealand, EU-28, India, USA, Pakistan and Canada. ASEAN trade is dependent on a few commodities. ASEAN top 3 import commodities in 2014, i.e. crude oil, petroleum, electrical & electronics equipment and parts, machinery, mechanical appliances and parts made up around 39 % of the total ASEAN imports. Similarly, these three product groups accounted for close to 37 % the total ASEAN exports.

ASEAN TRADE DATA

Graph No. 1.



Source: ASEAN Integration Report, 2015

INDIA ASEAN TRADE – AN ANALYSIS

India's exports to ASEAN increased from U.S. \$ 10.41 billion in 2005-06 to U.S. \$ 31.81 billion in 2014-15 and imports over the same period quadrupled from U.S. \$ 10.81 billion in 2005-06 to U.S. \$ 39.84 billion. This reflects a compound annual growth rate (CAGR) of about 9.2 per cent in exports to the ASEAN region and close to 14 per cent per annum growth in imports during 2010-11 to 2014-15. Concomitantly, India's trade deficit with the ASEAN surged from US\$0.5 Billion in 2005-06 to US\$14.6 billion (Table: 2).

India ASEAN Merchandise Trade (U.S. \$ Billions)

Table-02

Year	India Export to ASEAN	Share in India's Total Export	India's Import from ASEAN	Share in India's Total Import	Trade Balance	Total Trade
1	2	3	4	5	-2-4	2+4
2010-11	25.63	10.3	30.61	8.3	-4.98	56.24
2011-12	36.74	12.0	42.16	8.6	-5.42	78.9
2012-13	33.00	11.00	42.87	8.7	-9.87	75.87
2013-14	33.13	10.5	41.28	9.2	-8.15	74.41
2014-15	31.81	10.2	44.71	10	-12.90	75.52

Source: Import Export Data Bank, Government of India, Department of Commerce.

In terms of market share, share of imports in India's total imports from ASEAN went up from 7.3% in 2005-06 to 10.5% in 2015-16, over the same period share of exports to ASEAN in

India's total exports fell from 10.1 % to 9.6%. In 2005-06, Singapore accounted for more than 50% share in India's total exports to ASEAN followed by Indonesia, Malaysia and Thailand with a market share of 13 %, 11% and 10 % respectively. A decade after in 2015-16, export shares in the ASEAN market have undergone a major change with Singapore, Vietnam, Malaysia, Thailand and Indonesia accounting for a share of 31%, 21%, 15%, 12 % and 11% in India's total exports to the ASEAN. At an aggregate level, the share of ASEAN in India's total exports fell from more than 10 % in 2005-06 to 9.6 % in 2015-16. On the import side, the combined share of 4 countries (Singapore, Indonesia, Malaysia & Thailand) in the total imports from the ASEAN continues to be high though it has fallen from 91 % in 2005-06 to 88 % in 2015-16. In 2005-06, Singapore was the largest source of imports from the ASEAN with a share close to 31 % of total imports from the ASEAN that status has been taken over by Indonesia with a share of 33.5 % in total imports from the ASEAN in 2015-16. The net trade deficit of U.S. \$ 14.6 billion with the ASEAN in 2015-16 is the outcome of trade deficit of U.S. \$ 10.2 billion with Indonesia, U.S. \$ 5.4 billion with Malaysia and U.S. \$ 2.5 billion with Thailand. India's combined trade deficit with ASEAN in 2015-16 would have been much higher but for the fact that India ran a trade surplus of U.S. \$ 2.7 billion with Vietnam, U.S. \$ 826 million with Philippines and U.S. \$ 416 million with Singapore. Petroleum oils and meat products (buffalo meat) accounted for a share of about 15 and 10.5 percent of India's total exports to ASEAN respectively. Other top export items to ASEAN were with per cent share in total exports indicated in parenthesis were transport equipment (8.5%), chemicals (6.7), mechanical appliances (6.4%), iron & steel (2.9%) and pharmaceuticals (2.8 %) (Table-3). A noteworthy aspect has been increase in share of certain high end manufactured exports in India's total exports over the decade despite intense competition. These include pharmaceuticals, transport equipment, non-ferrous metals. In contrast, India's imports from ASEAN are concentrated and dominated by petroleum oils, palm oil, coal briquettes, chemicals, electrical and electronic equipment and mechanical appliances. These five items accounted for more than 50 % share in India's total imports from the ASEAN. In particular, imports of plastic and raw materials have increased from 3.4 % in 2005-06 to 4.4 % in 2015-16.

India's Exports to ASEAN**Table No. 03**

Product	2005-06		2015-16		CAGR
	U.S.\$ Million	% share in total	U.S.\$ Million	% share in total	2015-16/ 2005-06
Petroleum	2463	23.7	3766	14.9	4.3
Chemicals	1071	10.3	1698	6.7	4.7
Precious Stones	1590	15.3	1106	4.4	-3.6
Transport Equipments	698	6.7	2150	8.5	11.9
Iron Steel Articles	675	6.5	723	2.9	0.7
Mechanical Appliances	348	3.3	1617	6.4	16.6
Pharmaceuticals	163	1.6	717	2.8	16

PHARMA MARKET OF ASEAN NATIONS – OPPORTUNITIES

This region, with its fast-growing, young population and projected pharmaceutical sales in excess of US \$25 billion in 2016, represents a great opportunity for Pharma, offering huge untapped growth potential. After the globalization rapid economic development in the region has had both positive and negative effects. In terms of disease profile, non-communicable diseases are on the rise in ASEAN, claiming an estimated 7.9 million lives every year. Socio-economic development within the region has adversely affected the proportion of people affected with disorders associated with lifestyle such as obesity, diabetes, hypertension and cardiovascular diseases. These diseases are typically associated with more highly developed regions, which confirm that emerging-market lifestyles are beginning to mimic those of more Westernized markets in urban areas. In Indonesia, Vietnam and the Philippines we have to deal with a 'dual disease burden', as their healthcare systems cope with the increasing prevalence of diseases of affluence alongside infectious diseases yet to be fully eradicated. This development presents pharmaceutical companies with an opportunity to market their global products in this market, but, considering the diverse cultural and healthcare infrastructure across the countries, also necessitates a change in their strategies. With per capita expenditure on healthcare typically increasing with age, the age distribution of the respective markets can be key. Some ASEAN6 markets, such as Vietnam, Indonesia and the Philippines, are characterized by very young populations, while other markets such as Singapore and Thailand already have an aging population and a high old-age dependency ratio. Singapore has one of the lowest birth rates in the world, whereas Indonesia and the Philippines have a very high birth rate. The younger markets with high birth rates offer opportunities for pediatrics and vaccines products, while the more mature markets present opportunities for specialized drugs for diseases which are common among the elderly. High

cost drugs may stand a better chance in wealthier nations such as Singapore, where affordability, access, healthcare infrastructure and private health insurance coverage are the highest in ASEAN. Indonesia is also a potential market because of the huge size of its population and the growing number of affluent people in the capital and large cities. There are also major challenges, primarily the varying income levels across the ten countries. On a per capita basis, the richest country, Singapore, is 56 times wealthier than Myanmar, the poorest. In terms of people, Indonesia's population of 248m is 593 times larger than Brunei's 420,000 citizens. Political systems range from strict authoritarian to vibrant democracies. Economic systems range from communist to capitalist. Religions and languages are equally varied. Reflecting the region's vast social, economic and political diversity, its health systems are at widely varying stages of evolution, ranging from Singapore which has one of the most highly developed and efficient healthcare systems in the world, to the relatively underdeveloped and extremely underfunded healthcare systems of Cambodia, Laos and Myanmar. As a result, the healthcare systems across ASEAN have country-specific needs and operate within different financial constraints, necessitating different strategies for pharmaceutical companies wishing to be successful in each market.

FUTURE OF INDIA-ASEAN –THE GEOPOLITICAL ASPECT

To explore the key similarities and differences in the opportunities for Pharma across the ASEAN countries, focus should be on the six markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, often referred to as the ASEAN 6. Mature and wealthy Singapore, middle-income Malaysia and Thailand and highly-populated Indonesia, Philippines and Vietnam represent the prime targets for the industry within the region. Objective must be to Enhance bilateral and regional trade relations with this rapidly growing region of strategic importance will continue to be a focus area. Trade integration with the CLMV (Cambodia, Lao PDR, Myanmar, and Vietnam) countries is an important part of India's future regional trade strategy. These are among the fastest growing economies in the ASEAN region, with rising consumption levels, a young workforce, a potentially strong manufacturing sector and rich natural resources, offering India significant opportunities for trade in goods and services, investment and project exports. However, so far the scope of engagement by Indian firms with CLMV countries remains limited. Seamless connectivity with this region will help in the flow of goods, services and manpower and enable Indian industry to create forward and backward linkages with the existing production networks in this region. The CLMV region also offers opportunities for Indian investment in

manufacturing zones with a view to benefitting from their institutional trade architecture and lower factor costs. It was announced in the Budget 2015-16 that in order to catalyze investments from the Indian private sector in this region, a Project Development Company will, through a Special Purpose Vehicle (SPV), set up manufacturing hubs in the CLMV countries. This policy will vigorously pursue the follow up action to this decision. Connectivity with ASEAN is one of the strategic priorities of India, one of the two Dialogue Partners that share land and maritime boundaries with ASEAN. Four North-Eastern States of India, namely, Arunachal Pradesh, Nagaland, Mizoram and Manipur share borders with Myanmar. We have recently started a shipping service to Myanmar for boosting sea connectivity. The single biggest effort under the ASEAN-India Connectivity initiative is the India-Myanmar-Thailand Trilateral Highway, which also constitutes part of the proposed Asian Highway network. It starts from Moreh (Manipur) in India and ends at Mae Sot in Thailand, passing through Mandalay and Yangon in Myanmar. On completion, the project will provide complete land connectivity between India and the ASEAN region through Myanmar and Thailand. The relevant governments are also considering extending the highway further to Cambodia, Laos and Vietnam. This connectivity will augment trade by reducing travel distance and time thus enabling the economies of ASEAN and India to integrate further and collectively emerge as a globally competitive economic region. Intensive implementation of ongoing connectivity projects in the region is strongly required. In addition a task force is also discussing the text of the Agreement for Facilitation of Cross Border Transport of Goods and People between the countries so that the soft connectivity component is also in place by the time the hard connectivity gets established in the region

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