Research Paper Management

India's Free Trade Agreements With Asean: Review of Literature

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ABSTRACT

The following paper reviews some of the existing literature on India's relationship with Association of Southeast Asian Nations (ASEAN). India has signed FTA in goods as well as services and investments with ASEAN. With the help of the review of the literature, the current paper seeks to highlight the benefits of such FTAs (especially in goods) as well as the challenges that India might have to face. In short the paper elaborates on the trade relations of India and ASEAN.

KEYWORDS Free Trade Agreement, ASEAN, regional economic integration

INTRODUCTION

ASEAN (Association of Southeast Asian Nations) consists of 10 countries of Southeast Asia, viz. Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. India's association with ASEAN started in 1991, with its "Look East Policy".In 1992, India became ASEAN's Sectoral Dialogue partner and in 1996, Full Dialogue partner. The relationship was upgraded to summit level in 2001 and subsequently the first Indian-ASEAN summit was held in Cambodia in November 2002. During the second summit in Indonesia (in 2003), India and ASEAN signed a framework agreement on comprehensive economic cooperation. This covered FTA (Free Trade Agreement) in goods, services and investments along with areas of economic cooperation. The countries signed the FTA in goods in 2009 which was effective from 1st January 2010. Subsequently, in 2004 the countries signed the FTA in services and investment also, which will be effective from 1st July 2015.

The bilateral trade volume between India and ASEAN has been growing at a high rate. Given huge markets and high GDPs of these countries, regional economic integration has very good prospects. Given that the service sector in India accounts for almost 60% of the GDP, the FTA in services and investments will give this sector a boost. On the other side, the challenges for India will increase further due to need for more reforms (ITPO).

REVIEW OF LITERATURE

Francis (2011) explained that though there is a directional shift in India's international trade from developed countries to the developing countries of Asia, yet there hasn't been much of a compositional shift. Top six import items (viz. petroleum and petroleum products, gems and jewellery, non-electrical machinery, electrical machinery and parts, iron and steel and organic chemicals) have not changed between 1995 and 2008. However, composition of export basket has changed which labour intensive and natural resource based sectors (like apparels, cotton, coffee, tea, spices and automobiles) losing their sheen. The author then observed that there is a notable increase in two way trade in several sectors, which can be attributed to regional as well as global integration, especially with ASEAN. India'soverall trade balance with the ASEAN-10 is significantly negative. The author further explained the tariff reduction structure of ASIAN India FTA (AIFTA) in goods and noted that the agricultural products have high tariff reductions which are beyond even the Most Favoured Nation's (MFN) level. This might cause increased competition for Indian farmers because of increased imports. Even the items covered in exclusion list are not protected at the imported goods might substitute those items. The author also gave the example of other countries' experiences that the income levels and livelihood of farmers have been negatively affected due to trade liberalization. The author also argued that dominance of MNCs in chain of agricultural production and distribution, can be attributed to technological changes along with trade liberalization and foreign investment. This has led to inequitable distribution of income. Reduction in tariffs will also lead to deeper integration in production networks of manufacturing sector, which will again help in increasing the two way trade substantially. The author argued that the countries like Thailand, Indonesia and Malaysia will benefit from the AIFTA however, Small and Medium Enterprises (SMEs) of India will hardly gain from this agreement.

Kawai (2011) discussed East Asia's emergence as a global factory and the spread of FTAs. Factors responsible for making this area as a global factory are factor endowments, national policies, favorable initial conditions and firm levelstrategies. Factors responsible for the spread of FTAs are "market-driven economic integration through trade, foreign direct investment, and the formation of East Asian production networks and supply chains"; success of the regional integrations in American and European regions; recognition of the fact that East Asia need to improve the areas of trade and investment to sustain growth (as evident after the crisis of 1997/98) and "slow progress in the WTO Doha Development Round negotiations", which motivated the countries to find an alternative. The author further analysed Asian Development Bank's multi country survey report for understanding FTA use and impediments and Rules Of Origin (ROOs). As against the general view that East Asia has low FTA utilization rates, the survey concluded that the businesses in fact were benefited by the FTAs. While the businesses which did not use the FTAs cited lack of information, administrative costs, non-tariff measures and small preference margins as the reason. The survey also suggested that the businesses considered ROOs as restrictive. The author concluded that the East Asian countries should work to strengthen their ties which can then be forwarded with agreements with other countries of the world.

Chanda and Gopalan (2009) explained the rapid proliferation of the Preferential Trading Agreements (PTAs), the motivating factors behind this and the debate over whether such agreements are proliferating as an alternative to multilateral liberalisation; or whether they are likely to complement the multilateral process by helping to instil confidence in trade liberalisation at the bilateral and regional levels. The authors focused on reasons for growing importance of India in regional economic integrations in this paper. They identified grow-

ing importance of India as the major reason for PTAs. And this growing importance can be accredited to India's New Economic Policy since 1991, high growth rates, large consumer base, large exports of services, its image as a favoured destination of FDI and the realization by other Asian countries that they need to diversify to newer territories (after the 1997 East Asian crisis). Not only India's, but Asia's importance is also increasing in the world, so none of the parties can afford to ignore the other. Another important motivating factor for the establishment of the relationship between India and other Asian countries is that India might be fearing of marginalization by other countries and other countries might want to counterbalance the growing power of China. Besides economic reasons, there are geo political reasons for the India-ASEAN FTA as well. India wanted to develop its north eastern region and also curb g insurgent activities along the border with Myanmar. The author also pointed out that instead of being forward looking and competition oriented, India's approach with respect to PTAs has largely been defensive and catering to lobbying and sectoral interests. The existence of long list of negative items and areas of exclusion proves this point. To gain from such agreements, the author suggested the following measures which should be taken by India. First, it should be proactive and should look beyond sectoral interests. Second, reforms must be undertaken to build capacity and leverage market access. Finally, the country must cultivate opportunities in sectors like services which are not covered in PTAs till now.

Ghoshal (2009) analyzed the implications of the FTA in merchandise for India, with the backdrop of India's failure to sign the Free Trade Agreement (FTA) with the ASEAN in 2007, while also considering the future face of India's trade with ASEAN. The author described how then Prime Minister Dr. Manmohan Singh realized the loss of opportunity in 2009 and thus tried to recover the lostground and secured his cabinet's clearance forthe trade agreement. In this process, he had to counter resistance caused due to the argument that cheap imports from ASEAN countries would hurt domestic manufacturers of auto components as well as growers of tea, coffee, rubber, spices, etc. What finally helped in the Cabinet negotiations was the argument that India will suffer a loss of goodwill, if it backs out on the negotiations with ASEAN. Consequently, it may so happen that ASEAN would establish better relations with China. However, the opponents argued that India has very less items to offer for export and even those items compete with ASEAN's larger export baskets, so in effect, the FTA will not be of much benefit to the country. Nonetheless, the benefits from the FTA, with regards to regional consolidation, peace and security, were perceived to be more than the possible disadvantages. Also, tie ups with partner countries through regional commitments would help India get better bargaining power in multilateral negotiations. The author further noted that the balance of trade (in only goods) is in favour of ASEAN, which can only be corrected if investments and services are also included through a fresh agreement. Finally, the author listed the provisions of the FTA in goods.

Joseph (2009) opposed the view that tariff cuts brought in by the FTAs increase imports, particularly in plantation sector, result in price crash and hence reduce protection for domestic producers and sellers. The author believed in a more dynamic approach that imports are impacted not only by tariff reduction, but by exchange rate, productivity and market structures. To prove this, the author analysed the actual (observed) relation between tariff rate and import on the one hand and import and domestic price on the other. For the former, it was observed that bulk of import of plantation sector was through advance licensing route (duty free) for processing and export. The import, thus, is the basic raw material for plantation processing industry in India and also a foreign exchange earner. Thus the FTA was expected to build a plantation processing sector in India. For the latter, the author pointed out that the prices were driven by world demand and supply conditions and not by quantity of imports. The author suggested bridging the efficiency gap in the plantation sector across countries so that they are able to cooperate, coordinate and compete effectively.

Pal and Dasgupta (2009)analysed the tariff structure of ASEAN countries in more detail and came to the conclusion that India is unlikely to gain too much market share in the ASEAN because of the ASEAN-India FTA deal. As part of the agreement, India has had made significant tariff reduction commitments thus raising the apprehension that the deal might be favouring ASEAN more than India. In fact the ASEAN countries have higher export to GDP ratio and this agreement will provide them with better access to Indian markets. Thus, India's trade deficit with ASEAN countries might increase further. Also, the ASEAN countries are large exporters of products like light manufacturing and agricultural items. This agreement would increase the competition for domestic players in these industries. Further, one of the most important benefits from trade agreements is through economies of scale achieved by increased market access. Among the ASEAN countries, Singapore and Thailand account for 60% of exports of India, and India already has trade agreements with these two countries. India has an agreement with Myanmar also. So, basically India-ASEAN FTA will give marketaccess to Indonesia, Philippines, Malaysia and Vietnam. Given the low applied tariffs in most ASEAN countries and increased relationships with China, it is doubtful that India will gain much. On the other hand, if the ASEAN countries will get improved access to Indian markets, the domestic producers will face more competition. The area where the Indian industry is likely to gain from the ASEAN-India FTA is cheaper availability of intermediate goods from the ASEAN region. For some companies operating in India and ASEAN countries, this agreement will lead to improvement in their intra-firm production networks.

Pal and Dasgupta (2008) pointed out that the coverage of the negative list was the bone of contention in the TIG agreement. Initially Indian negotiators were cautious but later only five products were decided to be included on the highly sensitive list. They are tea, coffee, pepper, crude palm oil and refined palm oil. The authors identified India's position during the negotiations as defensive because India runs a fairly large trade deficit vis-à-vis ASEAN and reduction of tariff rates may worsen the situation unless there is a significant export boost. The authors noted that among the ASEAN members, India already has preferential trade agreements with Thailand, Myanmar and Singapore and thus the marginal impact of the Indo-ASEAN FTA will be less for these three ASEAN countries. Also the applied MFN rates are quite low in most major ASEAN countries; hence India is unlikely to gain much advantage because of the FTA. India presently is one of the top exporters of services and according to WTO data, it is ranked 10th in the world. Efforts are being made to gradually integrate services trade among ASEAN members to make ASEAN a single market and production base through free flow of goods, services, investment, skilled labour and freer flow of capital. One of the major barriers for movement of skilled professionals is lack of recognition of qualifications among nations. To avoid this problem, the authors suggest having Mutual Recognition Agreements (MRAs) among trading partners. Thus the Indo-ASEAN trade in goods agreement may not be beneficial for India in the short run but it can be thought of as a part of a long-term strategy to improve India's economic and strategic presence in the neighbourhood. Negotiations between India and ASEAN on services trade liberalization have just started and it will be up to the Indian negotiators to ensure that the lack of tangible benefits accruing to India in the goods sector is offset through an agreement on trade in services.

Batra (2007)applied first ever efficiency-based analysis of sequencing regional economic integration in Asia. To find out any bias in the trade among the member countries of ASEAN+4 economies, the author analysed the trends in their intra-regional trade.The author used measures like index of trade intensity, complementarity indices and trade bias to establish the case for ASEAN+4 as a regional trade bloc. The author found that ASEAN+4 has a good potential as a trade

bloc in Asia. In fact, India's trade with these countries supports India's inclusion in this trade bloc. The share of the plus four economies reveals a de facto market- led integration for the ASEAN+3. In this set of countries, India emerged as a "distant" economy. Thus, any trade agreement in Asia seeking to include India must look for optimal route for India's integration into the trade bloc. The research also concluded that for plus four economies, to enter into the ASEAN+4 blocs, alignment with ASEAN+1 is more efficient and a least cost path. The author also suggested how to integrate the region even more to create a win-win situation for all. Theory of comparative advantage and economic union is can be applied for maximum benefits. India's growth in the region is empirically supported through entry in the ASEAN+1 and with a sight to form ASEAN+6.

Mohanty (2007)analysed the then on-going negotiations between India and ASEAN to establish a FTA in goods to progressively eliminate tariffs and non-tariff barriers. He recognised the sensitive list to be the reason for the deadlock; the Indian approach is more flexible vis-a-vis the ASEAN approach. India maintains a uniform list of 489 products as negative items, which constitute less than 5% of the ASEAN exports to India. However, each country of ASEAN maintains a separate list of negative items. Further India has offered to reduce customs duty on crude palm oil and refined palm oil by 2018, but Malaysia (largest producer of Palm Oil in the world) and Indonesia are pressurizing to further reduce it. Similar is the case for pepper and black tea. These are highly sensitive items and if India will reduce the tariffs further, on the items, then internally lot of political issues will pop up. The author noted that India has been comparatively more flexible and more receptive as compared to ASEAN. ASEAN must also show more appreciation and flexibility so as to close the deal soon (which has now been done).

Asher and Sen (2005) suggested that India's inclusion in trade organizations will prove to be advantageous for Asia in meeting the continent's challenges and in improving its influence in world dealings. Out of Fortune 500 countries, more than 100 have already set up design or research facilities in India. East Asian firms have set up less number of such centres in India.Thus Asia should focus on both east as well as west Asia to make good use of untapped opportunities. Logistics is one such area where East Asia has a competence but India lags, so they can invest in India. East Asian countries can encourage "formation of Indian diaspora and leverage on their strengths" to deepen the linkages with India.

Karmakar (2005)explained the potential in service market in ASEAN. ASEAN being a net importer of services has service imports of more than 2.8 times of India's total service exports. Also, with a relative short-supply of cost-efficient manpower (demographic shift) to meet the increasing demand, the region also is increasingly becoming a major demander of services, resulted in ASEAN rising trade deficits in international services trades(unlike favourable net merchandise trade balance).

Author analysis therefore suggested that given that ASEAN countries and India are relatively closed to foreign service providers (even the member countries) and that they have limited commitments under GATS, they can make use of the service market potential in the region. Negotiations should be based on market access and other consular cooperation. The countries can make use of India's low cost skilled professionals, especially focusing the areas like education, IT, telecommunications, etc. to maintain the overall economic growth in the region. The CECA would also provide opportunities for India to access third country markets through partnering with an established ASEAN service firm in the targeted host country.

Focus should therefore be in two areas:

1. Market Access and ensuring equal National Treatment for services suppliers, in a select critical number of service sectors of mutual interest of the trade partners.
2. Measures to help easier movement of professionals

Saqib and Taneja (2005) in a study, through a survey of exporters, tried to identify and assess the extent to which Indian exporters face Non Tariff Barriers(NTBs) when exporting to ASEAN and Sri Lanka, and also to suggest the manner in which such barriers could be dealt with within the FTA framework.

The survey on perception of exporters on extent ofNTBs faced by them, the measures they adopt to meet standards and regulations and theexpenses they incur to meet such standards and regulationsrevealed that:

- Out of the firms with less than Rupees 20 million exports, only 32.6% faced some kind of barrier. Only 15.3% of rest of the firms faced some kind of barrier.
- Except for Philippines and Malaysia (moderately restrictive), exporters in all other markets didn't find the trade measures restrictive.
- Product standards barriers were faced by the majority of firms in countries like Sri Lanka, Singapore and Malaysia while packaging requirements in Vietnam and Thailand. Also majority of the firms felt there were barriers related to banks and competition.
- Majority of the firms believed that there was no discrimination amongst them and other competitors.
- To acquire information on various standards and regulations, majority of the buyers relied on the foreign buyers. Interestingly, as compared to industry association, thegovernment more actively disseminated the information to exporters.
- Majority of the firms incurred between 0 and 5% of total sales revenue as expenses for meeting regulations and standards.

The case studies further indicated that:

a) Exporters find it difficult to meet the multiple product standards of each of the country of ASEAN.
b) Standards are set up without any scientific justification and risk assessment and this issue should be discussed in bilateral negotiations.
c) Many countries take up surveillance of not just the end products but also the processes, which is difficult for India as major production is done in unorganised units.
d) Some of the companies encounter over bearing use of Testing, Certification and Registration procedures.
e) Further, packaging, labelling, language, mark-up and environmental considerations create even more barriers.
f) Quotas imposed by countries like Vietnam makes it difficult for exporters to plan their production until they get their quota.
g) Other Barriers are also faced by the exporters like lack of subsidies by domestic government and under invoicing demand by Sri Lankan importers.

Rajan and Sen (2004), intheir paper, identified the FTAs as a popular means of liberalization and pointed out three features of the regional FTAs made in recent times. Firstly, services liberalisation and trade facilitation has been included along with merchandise trade liberalization, thus, taking into account modern economic realities and thus, deeper economic integration of region. Two, FTAs are not restricted to just the immediate regions thus the term "regionalism" is somewhat of a misnomer. Three, initial membership in new FTAs is generally smaller because of the depth of coverage of the issues, in comparison to existing FTAs. The authors argue that although it is hard to definitively tell whether members in FTA are benefited substantially or not, but it can be certainly remarked that non-members will face trade and investment diversion and thus reduction in trade.

The authors give another explanation for the large number of FTAs entered into by countries like Thailand and Singapore: "to capitalize on being a hub of overlapping arrangements". Producers in such hubs are able to obtain more intermediate goods at cheaper rates and thus enjoy cost benefits.

Then they listed the areas of concern with regard to the FTAs, which according to them by definition are preferential and therefore discriminate against non-members.

1.) To prevent trade deflection Rules of Origin (ROOs) are applied which are complex and increases the costs of doing business along with placing high burden on origin certifying institutions.
2) A country's cross-membership in multiple FTAs can lead to contradictions in obligations and can also create confusion for investors about rules, obligations and incentives corresponding to the partners.
3) Scarce Negotiating Resources make the countries to shift their focus from multi-lateral to bilateral agreements which are considered to be less important.
4) Wider gaps in trade and investment may be observed between rich and less well-off economies because of power asymmetry.

Sen, Asher and Rajan (2004) suggested that India's strength in service sectors and ASEAN in light manufacturing develops a complementary economic relation and to realise the potential and sustaining it requires that effort should be made to develop trust and confidence in each other. The media and elites along with governments must address the perception and information gaps on both sides to increase the pace and scope of economic cooperation between ASEAN and India.

The analysis by the authors indicated that there is significant scope for expanding economic relations between India and ASEAN which will be mutually rewarding. This will require a systemic exploration of emerging economic opportunities between A SEAN and India- both by ASEAN as an organisation, as well as by individual ASEAN countries. The authors also listed out some possible areas for each ASEAN country to explore, which can prove to be beneficial for both.

Gaur(2003) highlights how the challenges of globalisation and growing economic interdependence in Asia is making both ASEAN and India to pursue free trade agreements with their trading partners within and outside the region. Declining markets in Europe and America ,China's rise as trade and investment hub and its joining WTO thus affecting competitiveness' in exports and FDI, along with inherent limitations of building up liberalised multilateral trade and collapse of WTO talks in Cancun have added urgency to the process.

Trade and Investment being the most important factor in ASEAN-India relationships, the FTA between ASEAN and India is a step in right direction. The current level of ASEAN-India trade, however, is still low. But the growth rate is impressive. Between 1991 and 2000, two-way trade between ASEAN and India has almost tripled. Despite the satisfactory growth in trade post-1991 period, India is still a marginal player in the global trading relations of all ASEAN countries. Currently, about 85 to 90 per cent of India-ASEAN trade is with three or four ASEAN countries. Thus, Diversification is what India should sought out for.

Post the 1997-98 financial crises, the ASEAN countries exports to India expanded much faster than its imports from India, mainly due to heavy depreciation of ASEAN nations currencies, leading to a growing trade deficit. By and large, trade structures of India and ASEAN in the global markets are found to be dissimilar which should be conducive to promoting bilateral trade between ASEAN countries and India. Further, it is found that India's trade with the ASEAN states is largely grounded on complementary products.

An ASEAN-India FTA would go a long way towards helping to realize the potential and diversity of trade and investment between the two. Also the tariff levels in India being still very high comparatively, most of the tariff concessions would have to be given by India. On their part, the scope for tariff reduction being limited, ASEAN countries may have to focus more on concessions on non-tariff barriers.

The payoffs for ASEAN from FTA with India are substantial. Since service sector important role in driving both the economies of India and most of the ASEAN countries, there are ample opportunities for liberalization in trade in services. With FDI policies increasingly getting liberalised in almost all the countries as well as relative core competency being different in the major economies in the sub region, it can be expected that investment flows either way will rise in future. The FTA does not specifically mention liberalization of manpower flows. However, business visa and travel facilitation are mentioned as an area of co-operation. Trade in services and investments invariably require complementary movement of natural persons.

However, following points needs to be kept in mind before too much optimising. Firstly, role of private sector is crucial, the governments can only provide the enabling policy framework, ultimately, trade and investment ties will deepen only through greater interaction between businesses from both sides through regular business meetings, fairs, exhibitions, and opening trade offices of industrial organizations such as the Confederation of Indian Industries (CII) are crucial. Secondly, transportation and communication linkages vital for boosting trade and other linkages at present are found to be lacking in critical areas between ASEAN and India and thus, calls for urgency in completion of initiatives taken up for establishing these linkages.

CONCLUSION

Shared and sustained economic growth is the most powerful driver of poverty reduction and is critical to achieving development outcomes by improving livelihoods, creating job opportunities and raising household and government incomes.

Evidence supports the idea that the nations more open to trade; tend to be richer than those that are less open. Seen in this light, it is therefore amply clear that policies to liberalize trade and remove protectionist government policies will help the Indian economy in the long run by making Indian industries more efficient and productive, by providing the Indian consumers access to cheaper and larger variety of products and generate employment for the rapidly expanding labour force. Benefits from the India-ASEAN FTA with respect to economic growth, fall in prices, larger variety of products available, increased efficiency of firms and more of foreign investments substantiates this fact. However, the FTAs also negatively impact some industries. Redistribution of wealth to those industries will help. Besides, India can leverage its historical n cultural ties with the region for further expansion of economic and political ties. Apart from the economic benefits, what the countries need to look for, in regional associations, is social and human development also. These aspects will ensure a wider and more sustainable development for every country.

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