INDIA-ASEAN FREE TRADE AGREEMENT

A Survey of Literature

Tuli Sinha
The Institute of Peace and Conflict Studies is not responsible for the facts, views or opinion expressed by the author.

The Institute of Peace and Conflict Studies (IPCS), established in August 1996, is an independent think tank devoted to research on peace and security from a South Asian perspective.

Its aim is to develop a comprehensive and alternative framework for peace and security in the region catering to the changing demands of national, regional and global security.

Address:
B 7/3 Lower Ground Floor
Safdarjung Enclave
New Delhi 110029
INDIA

Tel: 91-11-4100 1900, 4165 2556, 4165 2557, 4165 2558, 4165 2559

Fax: (91-11) 4165 2560
Email: officemail@ipcs.org
Web: www.ipcs.org
INTRODUCTION

An analysis of the history of India-ASEAN relations reveals a rather checkered past. A time-intensive process, it took nearly a decade to establish stronger dialogue partnership and strengthen cooperation and cordial relations among the ASEAN countries and India; their relations grew from a sectoral to a full dialogue partnership. Since then the collaboration has transcended beyond the realm of functional cooperation to cover political and security dimensions. India has been actively participating in a series of consultative meetings with ASEAN that include the ASEAN Regional Forum (ARF), the Post Ministerial Conferences (PMCs), 10+1, 10+10 and Treaty of Amity and Cooperation in Southeast Asia (TAC).

Acknowledging the economic potential of closer linkages, both sides recognised opportunities for deepening trade and investment ties and agreed to sign a framework agreement to pave the way for establishing an India-ASEAN Free Trade Area. The initiation of the ASEAN (+1), India process, which was implemented in November 2002, was a turning point in India-ASEAN ties. This furthered the signing of the landmark India-ASEAN Framework Agreement for Comprehensive Economic Cooperation in 2003 that formed the basis of the FTA which included goods, services and investments and has to be fully functional by 2016. The India-ASEAN FTA is significant because it is the first multilateral FTA that India has negotiated till date.1

In the past, various contradictions delayed the signing of the FTA. However, with protests against the ASEAN Summit 2009 in Thailand, the FTA, which was scheduled to be signed in December 2008 and made effective by January 1, 2009, has taken a back seat once again. More than 1,000 anti-government protesters, the ‘Red Shirts’, stormed the venue of the ASEAN Summit, demanding the resignation of Thailand’s Prime Minister Abhisit Vejjajiva leading to the cancellation of the Summit, as underscored very well in a recent newspaper article by Shankari Sundararaman, titled ‘India ASEAN FTA: To Be or Not To Be’.2 It highlights that the India-ASEAN Free Trade Agreement (FTA) is increasingly looking like a Hamletian Dilemma. The logic of India’s integration with Southeast Asia began with economic cooperation as the key to building a deeper space for India’s strategic interests in the Asia-Pacific region. The implementation of the India-ASEAN FTA for goods was to take place on January 1, 2006, but even three-and-a-half years past the deadline the process is yet to be finalized.

Sundararaman’s study states that the latest delay in the FTA is merely one in a series of such setbacks ever since the initial proposal. Over the last six years, the hurdles faced by the India-ASEAN FTA began with objections that India had more than 1,400 items on the sensitive or negative list. The ASEAN side, in return, also increased the number of items on its own list. The Rules of Origin (ROO) was

---


2 Shankari Sundararaman, “India-ASEAN FTA: To be or not to be,” Asian Age, 14 April 2009
another litmus case where negotiations were held up. Finally, the concluding section of the work reflected on the possibility that a change in government could be a further hurdle to the FTA. However, it must be stated that rarely have any foreign policy negotiations stalled as a result of changes in the domestic scenario. If that were the case, the “Look East” policy started by the Narasimha Rao government would never have been fine-tuned under the National Democratic Alliance (NDA) and later the United Progressive Alliance (UPA) would not have continued negotiations. In the long run, to be integrated into a market of a billion-and-a-half is more crucial for India than being out of the reckoning. Therefore, it is critically important for India to analyze its benefits, and begin utilizing the opportunity optimally and pragmatically.

The survey of literature aims to establish certain significant conclusions regarding the India-ASEAN FTA. There is a vast amount of literature on the subject and a few significant works have been incorporated in the present study. This work is an effort to unravel the hidden complexities in the signing of the India-ASEAN FTA. The diverse works referred to in this study have been carved into three main themes; India-ASEAN Economic Relations: A Regional Initiative, India-ASEAN Trade Relations and The FTA Dilemma: A Delayed Process along with an Introduction to the topic and a Critique of the Existing Literature to forge a better understanding of the subject. The present work has endeavored to bring out the cardinal arguments and assumptions to reflect upon the core issues of contention that require attention and action to thwart unremitting problems.

I

INDIA ASEAN ECONOMIC RELATIONS: A REGIONAL INITIATIVE

Rupa Chanda and G. Sasidaran’s combined working paper titled ‘Understanding India’s Regional Initiatives within Asia’ examines the reasons underlying India’s growing interest in framing various kinds of regional and bilateral agreements with Asian economies. It discusses various possible explanations for India’s “Look East” policy as well the reciprocation of this interest by its Asian partners. Possible reasons are examined from Indian as well as Asian perspectives, and also from the larger regional and geo-political perspective. It assesses the extent to which India has been able to realize its interests under these agreements and the trade offs that has been involved in this negotiating process. The study concludes by looking at the prospects for future Preferential Trade Agreements by India and the various issues and interests that should shape India’s future regional initiatives to assure the realization of its long term economic, strategic, and geo-political objectives.

Razeen Sally and Rahul Sen (2005), in the combined study titled ‘Whither Trade Policies in Southeast Asia: The Wider Asian and Global context,’ analyze the trade policies in Southeast Asian countries in their wider Asian and global contexts. The paper looks at recent trends in trade and FDI patterns in ASEAN and summarizes key trade-policy features in ASEAN countries. Further, it examines ASEAN countries in international trade negotiations and agreements; first within ASEAN, second on cross-regional FTAs, and third in the WTO, especially in the Doha Round.

The paper concludes that for ASEAN countries the engine of liberalization and regulatory reform has to be home-driven, with governments taking unilateral measures in response to internal and external conditions. In essence, it not only compares and contrasts trade policies in

---

3 Rupa Chanda and Sasidaran G, “Understanding India’s Regional Initiatives within Asia,” ISAS Working Papers, no. 373, 2008
individual Southeast Asian countries but also analyses these policies in the context of regional and global economic integration, and the emergence of two other major Asian economies, China and India.

Suparna Karmakar (2005), in her paper titled ‘India–ASEAN Cooperation in Services – An Overview’,5 analyses the economic scenario in the Asia-Pacific region. She takes a macro overview of the potential of an agreement on trade in services between India and the members of ASEAN in the context of the ongoing attempts at multilateral liberalization and the proliferation of bilateral/regional comprehensive new-age free trade agreements.

This paper is an analysis of the economic scenario in the Asia-Pacific region and a macro overview of the trade creation potential of an agreement on trade in services among members of ASEAN and India. India–Southeast Asia ties, both with ASEAN as an organization and with individual member countries, remained active throughout 2007. However, on key issues such as conclusion of an FTA, the year ended without success.

Nagesh Kumar, Rahul Sen and Mukul Asher in their edited work titled ‘India–ASEAN Economic Relations – Meeting the Challenges of Globalization’,6 provide a comprehensive backdrop as well as a roadmap for the India–ASEAN association to fructify and flourish. Leading experts of the region, in their contributions to this book, examine the ways in which the emerging partnership between India and ASEAN can be taken forward for mutual benefit so that both sides can leverage on each other’s strengths to better negotiate the forces of globalization.

The book specifically addresses issues concerning trade liberalization in both regional and multilateral contexts and goes on to examine the prospects for investment flows and trade in financial services and information and communication technology. It also deals with the potential of sub-regional cooperation and the strategic implications of India–ASEAN cooperation that have hitherto received insufficient attention in the literature.

Mukul Asher and Amitendu Palit in their article titled ‘Trading Across the Bay of Bengal’7 explore India’s Look East Policy, initiated in 1992, which is all set to enter a new phase with the signing of the India–ASEAN FTA. India’s economic engagement with Southeast Asia has expanded rapidly since the early 1990s. Merchandise trade between India and ASEAN has grown from US$2.3 billion in 1991-92 to US$38.4 billion in 2007-08. Bilateral trade has diversified in terms of commodity composition. This further suggests that acceleration in India–ASEAN trade coincided with the onset of a robust period of expansion for the global as well as the Indian economy.

Laurence Henry (2007), suggests in his extensive paper titled ‘Trade and Economic Arrangements between India and South East Asia in the Context of Regional Construction and Globalization’,8 that the development of trade and economic arrangements between India and Southeast Asia must be rooted within the larger processes of economic and diplomatic exchanges in Asia. The existence of regional organizations is not a new phenomenon but their success has been more or less conclusive. The article further highlights

---

ASEAN as a successful model of regional cooperation that started its revolutionary growth in the 1990’s.

According to the author, a major reason for the evolution of the ASEAN-India entente is the perceived hegemony of China in Asia. Southeast Asian States are very interested in balancing Chinese power through India, in the region. The association between India and Southeast Asia, in particular ASEAN and its member states, reflects the overall tendencies of the emerging regional infrastructure of East Asia.

Aekapol Chongvilaivan’s study titled ‘India’s Ties to ASEAN Must Look Beyond Trade in Goods’ suggests that the landmark agreement between India and ASEAN states is expected to constitute a tremendous free-trade bloc, a large market of 1.5 billion people, with a combined GDP of $1.2 trillion. The work explains that India’s attempts at paving the way toward duty-free trade with ASEAN nations were motivated by its fears that it might “miss the boat of globalization” and that it has to catch up with China’s ties with ASEAN. Six years of sluggish, painstaking negotiations on the India-ASEAN FTA have proved that India has a long way to go to match China’s engagement with ASEAN.

The article leads the reader to question whether ‘the India-ASEAN FTA is welfare-enhancing for both signatories?’ While the author points out that freer trade may not always be beneficial for everyone he sheds light on a roadmap towards a successfully concluded FTA, by 2018, which will bring about substantial tariff reductions on India’s sensitive lists; from 90 to 45 per cent for refined palm oil, from 80 to 37.5 per cent for crude palm oil, from 70 to 50 per cent for pepper, and from 100 to 45 per cent from coffee and tea. Second, a bilateral agreement like the India-ASEAN FTA has often led to overlapping Rules of Origin (ROOs), either subtle or glaring. Inconsistency in ROOs increases administrative cost, adds regulatory complexity, and ultimately becomes a non-tariff barrier to trade. In such a scenario both India and ASEAN may fail to tap benefits from further tariff reductions. The India-ASEAN FTA that successfully liberalizes trade in services and investment will therefore provide economic opportunities for companies in ASEAN countries to strengthen their competitiveness in the global market by fragmenting their production and establishing industrial clusters.

II

INDIA ASEAN: TRADE RELATIONS

The review titled Economic Briefing (2004) suggests that regional cooperation opens up new opportunities for faster and more balanced economic growth for participating actors. Though India’s ties with ASEAN have grown considerably over the last decade, a vast potential remains untapped. India, presently, is merely at the novel stage of its expansion. The article believes that the increased partnership between India and ASEAN will enhance the size of the regional economy, which in turn will create better conditions for competitive market structure and a larger market size. In recognizing economic potentials for close linkages, both sides have signed the ASEAN-India Framework Agreement on Comprehensive Economic Cooperation at the Bali Summit in 2003. The Agreement provides for the establishment of a Free Trade Agreement in goods, services and investment.

The FTA in goods is to be realized by 2011 between India and Brunei, Indonesia, Malaysia, Singapore and Thailand and by 2016, between India and the Philippines, Cambodia, Laos, Myanmar and Viet Nam. India ASEAN cooperation covers the


economic, political, security and development dimensions with a number of mechanisms established to promote dialogue and cooperation in these areas. Vigorous and sustained interaction between ASEAN and India would help both parties in maintaining a high growth path and meet their development objectives.

Mukul Asher, Rahul Sen and Ramkishen Rajan (2004), in their combined study titled ‘ASEAN – India Economic Relations: Current Status and Future Prospects’ examine the future of India-ASEAN economic relations. The paper offers a broad overview of economic relations including a discussion of the India-ASEAN FTA and various aspects of international trade flows between ASEAN and India. The study flags a range of complementary issues between ASEAN and India that are under-exploited. Groundwork for significant expansion and intensification of economic ties has been concluded with the establishment of the Framework Agreement for establishing a FTA. If India is permitted to be an observer at various technical committees in ASEAN, it would facilitate negotiations for an ASEAN-India FTA. Mutual trust is a vital element in sustaining the dynamics of this emerging economic relationship.

The paper also stresses the fact that both the media and elite class of the Indian society make every effort to address current information and perception gaps that hinder the pace and scope for economic cooperation between ASEAN and India. The significant complementarities that exist between ASEAN and India can only be realized if these ideological and informational blinders are removed. The penultimate section explores future prospects of ASEAN’s economic relations with India with a focus on potential gains at both State level and Group level.

Sasatra Sudsawasd and Prasopchoke Mongsawad (2007), in the combined article titled ‘Go with the Gang ASEAN’ investigate unexplored trade potentials and economic impacts of bilateral free trade agreements between ASEAN-5 member countries and the seven-candidate FTA partners. By using the gravity model and the Computable General Equilibrium (CGE) model, this study suggests strategic FTA partners for ASEAN-5; ASEAN plus 3 FTA, ASEAN-China FTA, ASEAN-US FTA, ASEAN Japan FTA, and ASEAN India FTA. Moreover, this study shows that ASEAN-5 would benefit more from the FTAs if they fully liberalized trade among themselves. The results clearly indicate the potential gains from intra-regional free trade, and emphasize the importance of ASEAN regional cooperation.

Pradnya Parashar’s work titled ‘India ASEAN Economic Relations’ highlights the salient features of economic relations between India and the five major countries of the ASEAN since 1970. The paper examines trade and investment relations, and “other” economic relations such as shipping, tourism and banking. The study speculates on some prospective areas of expanding economic cooperation between India and the ASEAN countries. An assessment of the economic relations between India and the ASEAN countries leads to the conclusion that there is tremendous scope for expanding economic cooperation among these countries in the coming years, especially in the area of investment cooperation involving export of Indian technology, consultancy and management and banking services.

Satu Limaye, in his extensive work titled ‘India-Asia Pacific Relations: Consolidating Friendships and Nuclear Legitimacy’, 12

---

14 Satu Limaye, “India-Asia Pacific Relations: Consolidating Friendships and Nuclear
reflects upon India's ties with Southeast Asian countries and with ASEAN through 2007. The main subject of discussions between India and ASEAN was the ASEAN-India Trade in Goods Agreement. The year-long talks stumbled on the issue of tariffs on palm oil and refined palm oil in the case of Malaysia and Indonesia, and duty cuts on pepper and black tea in the case of Vietnam. However, on key issues such as conclusion of an FTA, the year ended without success, though India participated in the bilateral summits both as an ASEAN Dialogue Partner and as a member of the East Asia Summit, which was convened following both ASEAN summits. Despite indications of growth in India-ASEAN trade, what is worrying for India is that it is falling steadily behind China.

The study also mentions a report by the Federation of Indian Chambers of Commerce and Industry (FICCI) on India ASEAN trade. The statistics suggests, in the decade between 1997 and 2006, India's share in ASEAN trade has moved marginally up from 1 percent to 1.6 percent, whereas during the same period China’s has gone up from 3.7 percent to 11.4 percent. Another concern for India is that imports from ASEAN are much higher than exports to ASEAN following an overall pattern in India’s international trade.

III
THE FTA DILEMMA: A DELAYED PROCESS

Paul Bowles and Brian MacLean, explain in their article, titled ‘Understanding Trade Bloc Formation: The Case of the ASEAN Free Trade Area’15, the process of the formation of the ASEAN Free Trade Area (AFTA) in 1991 which marked a significant change in attitudes towards preferential trading arrangements in the region. The work examines the change in policy and concludes that mainstream economic approaches do not provide satisfactory explanations for the formation of AFTA. It provides an alternative explanation for the formation of ASEAN which points to the need for an explicit analysis of the political economy of ASEAN states and ASEAN's relationship to the global economy.

Jagdish Bhagwati argues in his article, titled ‘Going It Alone: The Case for Relaxed Reciprocity in Freeing Trade’16, about certain assumptions regarding Indian trade and economic arrangements. He believes that the analysis implies that India should be considering the regional option as a serious complementary effort to securing further liberalization at home and abroad. India has recently signaled its willingness to depart from an exclusive reliance on the multilateral approach by announcing its desire to negotiate a free trade agreement with ASEAN countries. According to him, India has already fired the regional salvo. Perhaps the curious choice of ASEAN as India's preferred regional trade partner is justified under the current circumstances. But, it raises the question whether there has been a considered and strategic assessment of the desirability of pursuing regional integration agreements.

Ramakishen Rajan and Rahul Sen (2004), suggest in their detailed article, titled ‘A New Wave of FTA’s in Asia: with Particular Reference to ASEAN, India and China’17, that Free Trade Agreements (FTAs) appear to be increasingly regarded by Asian policymakers as effective and expeditious instruments for achieving trade liberalization among “like minded” trading partners. The study argues that virtually all developing countries in Asia have committed themselves to increased trade

---

17 Ramkishen S. Rajan and Rahul Sen, “A New Wave of FTA’s in Asia: with Particular Reference to ASEAN India and China,” (2004)
openness unilaterally, though the timing, pace and modalities through which they actually integrate with the global trading system have varied. This is where the “new regionalism” comes into relevance.

Further, they stress upon the fact that recent bilateral and sub-regional efforts to strengthen economic relations are being complemented through an effort by India to intensify its economic relations with ASEAN as a whole. The aim was to increase bilateral merchandise trade between ASEAN and India to US$ 15 billion by 2005 and to US$ 30 billion by 2007, but that is yet to be achieved. Their work even discusses about the ASEAN China Free Trade Agreement (ACFTA), and its similarity with the ASEAN-India FTA in terms of an early harvest program. This program specifies the areas for collaboration and a common list of items for preferential tariff concessions.

The concluding section emphasizes that the new regionalism in Asia has given rise to a highly complex and rather untidy patchwork quilt of trading agreements. The three largest countries in Asia - China, India and Japan - are due to fully implement FTAs with ASEAN by 2010, 2012 and 2011 respectively, thus providing ASEAN an excellent opportunity for larger economic integration.

Dong Zhang, in 'Development of Trade and Economic Relations between India and ASEAN', explains that relations between the two actors have been marked by several phases; a rather distant relationship based on strategic links with individual countries. It became one of the Sectoral Dialogues with India’s Look East Policy, encouraged by the United States and Japan who were interested in India’s liberalization process. Gradually the economic and trade cooperation has deepened and new cooperation fields such as investment and tourism have been added to the list.

The author suggests that the trade and economic relationship recently elaborated between India and South-East Asia gives a feeling of profusion and redundancy. East Asia and India are nevertheless at the crossroads. ASEAN countries have to keep the balance between Northeast Asia and India, the two main poles of their external Asian policy. It is essential for India to be incorporated in the “new Asia”, instead of staying at its periphery, as it has been so far. In Southeast Asia, the regionalism challenge is mainly withstood by ASEAN.

Satyajit Mohanty’s article titled ‘India ASEAN FTA Negotiations: The Way Forward’ talks about how India launched its ‘Look East’ policy to connect with East Asian nations, and in particular with the Association of South East Asian Nations (ASEAN) in a major post-Cold War diplomatic reorientation in the early 1990s. This led to growing economic interaction between the two economically resurgent regions. ASEAN with a combined GDP of around US$ 700 billion signed the historic ASEAN Charter on 20 November 2007 to accelerate the formation of the ‘ASEAN Economic Community’ and create a highly competitive single market and production base. Sensing the importance of increased interdependence with ASEAN, Indian Prime Minister Manmohan Singh termed India’s ties with ASEAN as an important pillar of our Look East policy, and proposed to bolster two-way trade from current levels of around US$ 30 billion to US$ 50 billion by 2010.

In the Indian context, ASEAN is emerging as an important trade partner. India’s bilateral trade with ASEAN has risen sharply from US $ 7.0 billion in 2000-01 to US $ 38.4 billion in 2007-08. A review titled ‘The Indian Foreign Trade Report


2008-09 reflects upon ASEAN as a major production base in the world market accounting for 6.3 per cent of world exports and 5.5 per cent of world imports in 2007. ASEAN’s exports to GDP ratio is 69.9 per cent and imports to GDP ratio is 60.9 per cent. Being a major trade block, ASEAN aims to create its own single market or ASEAN Economic Community by 2015.

India’s trade with ASEAN is mainly concentrated in Singapore, Malaysia, Indonesia and Thailand. Singapore continues to remain the largest market in ASEAN for India’s merchandise exports. India’s trade relations with the ASEAN region have the specific advantages of geographical proximity and a large population of Indian origin within the region. India’s economic structure is also largely complementary (service-oriented) to ASEAN economies (light manufacturing) with significant areas of mutual gain.

The current article in the Thailand Investment Review titled ‘ASEAN India Free Trade Agreement on Track for Approval’ discussed the assumption that the long awaited ASEAN India FTA will be signed during the ASEAN Leaders meeting in Bangkok in 2009, which will give Thailand greater market access to India. It even talks about the present trade relations of Thailand with India and how Thailand enjoys zero tariffs for only 82 items exported to India. About 80 per cent of trade in agriculture and industrial production will gradually be brought down to zero tariffs by 2010 while tariffs for another 10 per cent will be eliminated in 2015. The remaining 10 per cent comprises sensitive items that will need to be renegotiated. The study also brings out a comparative analysis of last year’s trade between ASEAN and India, which is ASEAN’s 10th largest trader and the 17th largest trader of Thailand.

IV
EXISTING LITERATURE: A CRITIQUE

The diverse scholarly work suggests a phase of ongoing contradictions in achieving the final result i.e., the signing of the India-ASEAN FTA. The articles examine how both the actors are mutually interested in economic integration amidst transitions in regional dynamics at both bilateral and multilateral levels. Scholars have argued in favour of the economic ties between India and Southeast Asia and also the Look East Policy that they consider a major step towards strengthening regional dynamics. While these studies primarily focus on the India-ASEAN economic relations bilaterally, they do not highlight the regional ramifications that are relevant in context of China’s rise. Major regional actors like China played a significant role in the initiation of the Look East Policy by India to strengthen its ties with Southeast Asia as a region of strategic importance.

Though the reviewed works succeed in establishing certain critical issues surrounding the India-ASEAN FTA, they fail to mention any future solution that needs to be implemented. Their discourse basically explores the trade statistics underlying the deal. The authors of most of the articles have mentioned the economic implications of the delay in the agreement, but only a few have tapped its political and strategic connotations. Most of them talk about China-ASEAN FTA and the growing significance of China against India as a regional power. Their work reveals, China having an upper hand in relations with ASEAN. The fear of India losing its multilateral economic deal resounds in the rising closeness between the two regions, i.e., China and ASEAN. It’s a fact that India has awakened quite late to revive the Look East Policy in response to Chinese regional dominance. The sudden realization to achieve multilateral agreements in Southeast Asia is certainly in reaction to many domestic and international

---

21 Thailand Investment Review, “ASEAN – India Free Trade Agreement on Track for Approval,” 2009
developments. And as far as future prospects are concerned, the end result is eagerly awaited by both the participant regions. Hopefully the jinxed India-ASEAN FTA will be signed and history would be created in the arena of multilateral engagements in coming months.

BIBLIOGRAPHY


Shankari Sundararaman, “India-ASEAN FTA: To be or not to be,” Asian Age, 14 April 2009

Rupa Chanda and Sasidaran G, “Understanding India’s Regional Initiatives within Asia,” ISAS Working Papers, 2008


Suparna Karmakar, “India–ASEAN Cooperation In Services – An Overview,” ICRIER Working Paper No 176, 2005


Aekapol Chongvilaivan, “India’s Ties to ASEAN Must Look beyond Trade in Goods”, The Nation, 4 November 2008

Economic Briefing to the Penang State Government, ‘The India - ASEAN Partnership,” no. 8 August 2004

Rahul Sen*, Mukul G. Asher and Ramkishen S. Rajan , “ASEAN- India Economic Relation: Current Status and

Sasatra Sudsawasd and Prasopchoke Mongsavat (2007), ‘Go with the Gang, ASEAN!’ ASEAN Economic Bulletin 24 no.3 ISEAS 339–356


Paul Bowles and Brian MacLean “Understanding Trade Bloc Formation: The Case of the ASEAN Free Trade Area,” http://www.jstor.org/stable/4177188


India’s Foreign Trade: 2008-09, Monthly Bulletin, 2008