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Singapore Symposium 2012 Papers-3

India-ASEAN Trade Profile[1]

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There has been a significant growth in bilateral trade between the Association of Southeast Nations (ASEAN) and India in the last decade. Between 1993 and 2003, the growth rate of this trade was 11.3 per cent per annum, and this has grown to 21.3 per cent per annum in the last decade (2001-2010). Over this period, Foreign Direct Investment (FDI) flows have amounted to US$ 18.3 billion from ASEAN countries into India. In 2010 alone, the inward flow into India was US$ 3.4 billion.

India has been keen to leverage the advantages of closer linkages with the ASEAN countries, and a trade in goods agreement was signed in 2010. This is a first step towards the envisaged ASEAN-India Free Trade Area.

Of the ASEAN countries, India's trade with Singapore, Malaysia, Indonesia and Thailand has been significant, while that with Vietnam, Cambodia, Laos and Brunei Darussalam has been fairly small.

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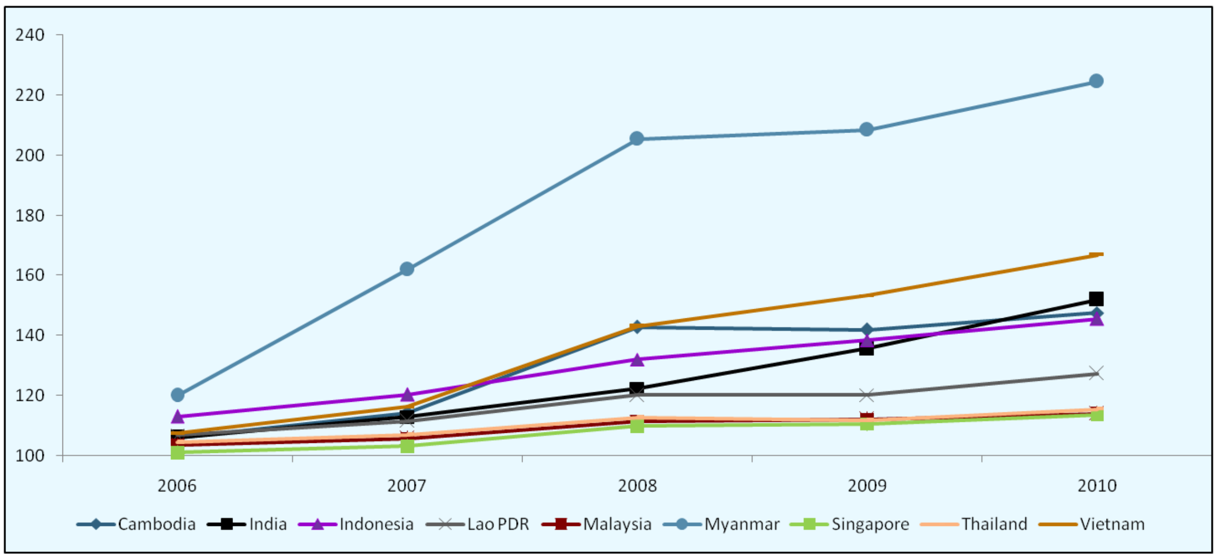
1 The paper by Dr S Narayan is based on his comments during the second session of panel discussion at the Singapore Symposium, organised by the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore, and Aspen Institute India in New Delhi on 12 July 2012. The session was chaired by Ambassador See Chak Mun, Adjunct Senior Fellow, ISAS, and Senior Adviser, Ministry of Foreign Affairs, Singapore.

2 Dr S Narayan is Head of Research and Visiting Senior Research Fellow at ISAS. He was the Economic Adviser to the Prime Minister of India. He can be contacted at snarayan43@gmail.com. The views expressed in this paper are those of the author and do not necessarily reflect those of ISAS.

The Gross Domestic Product (GDP) growth in the ASEAN countries has mirrored the GDP growth variations in the rest of the world, with 2008-9 showing a sharp dip in the case of all countries. However, inflation figures indicate that some of the countries have faced greater inflationary pressures than others. Inflation in Vietnam has been particularly worrying. It is also interesting to note the congruence between the inflation data for most of the countries in this set, indicating that they faced similar supply/demand issues over this period.

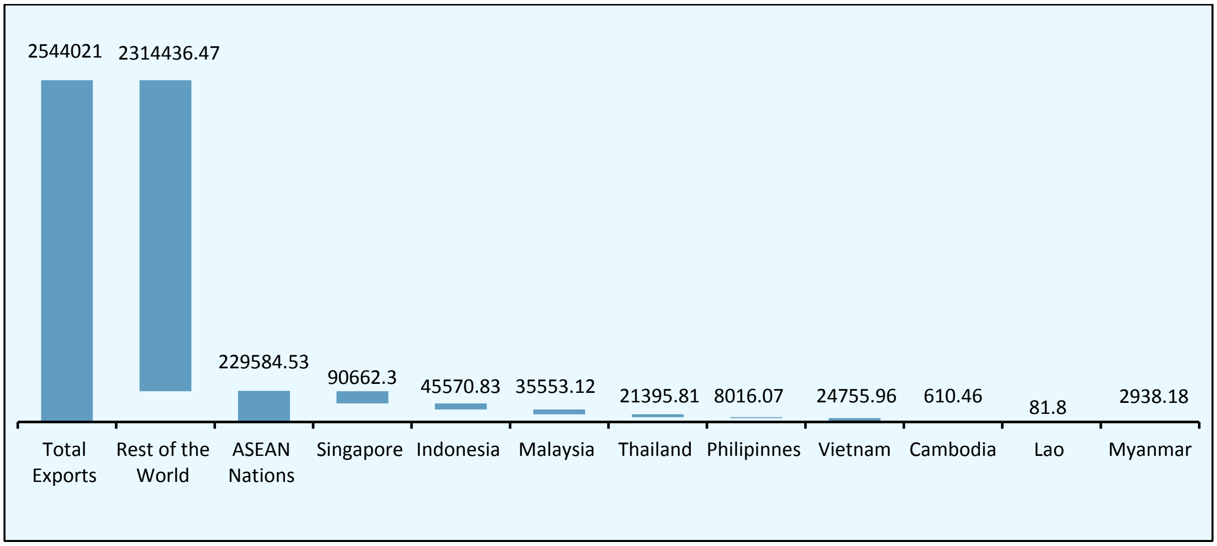
<u>Table 1:</u> Inflation in India and ASEAN Members (CPI, 2005 =100)



<u>Source:</u> Consumer Price Index, Base Year 2005; World Development Indicators and Global Development Finance, Databank, the World Bank

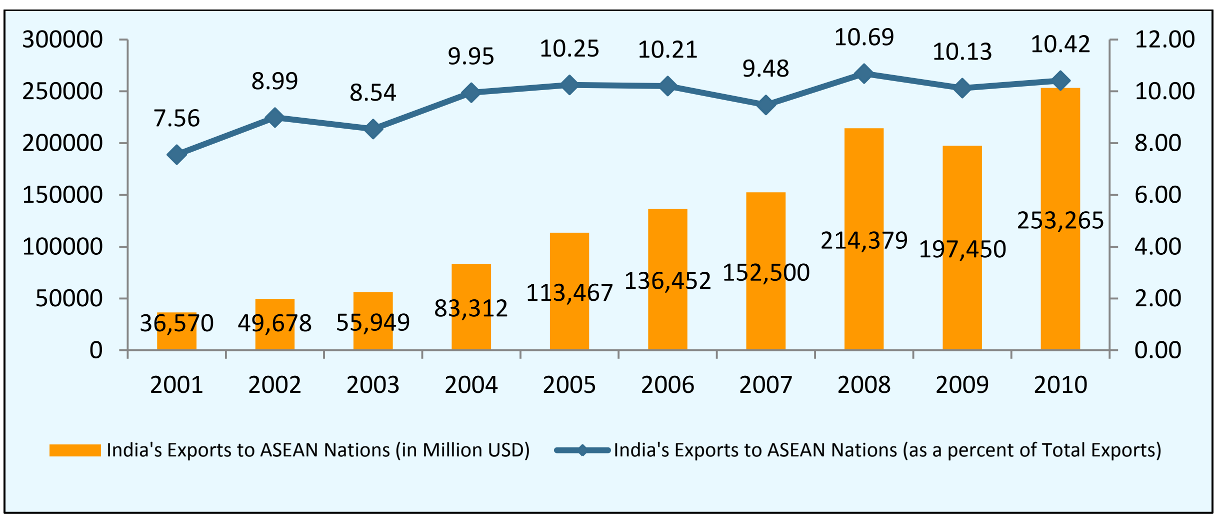
The Table below indicates the exports from India to the ASEAN nations. It is important to note that ASEAN still accounts for a small proportion of the total exports from India. However, Singapore alone is the destination for around 40 per cent of this trade indicating that this is the most preferred destination. The next country is Indonesia, followed by Malaysia. The comparison in the table at constant prices indicates that while Indian exports to ASEAN have been growing, they have been growing at almost the same pace as with the rest of the world, and accounted for some 10.42 per cent of India's total exports. In dollar terms, however, the significant increase over the decade can be seen.

Table 2: India's Exports to ASEAN Members in 2010 (Current Prices USD Million)



Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

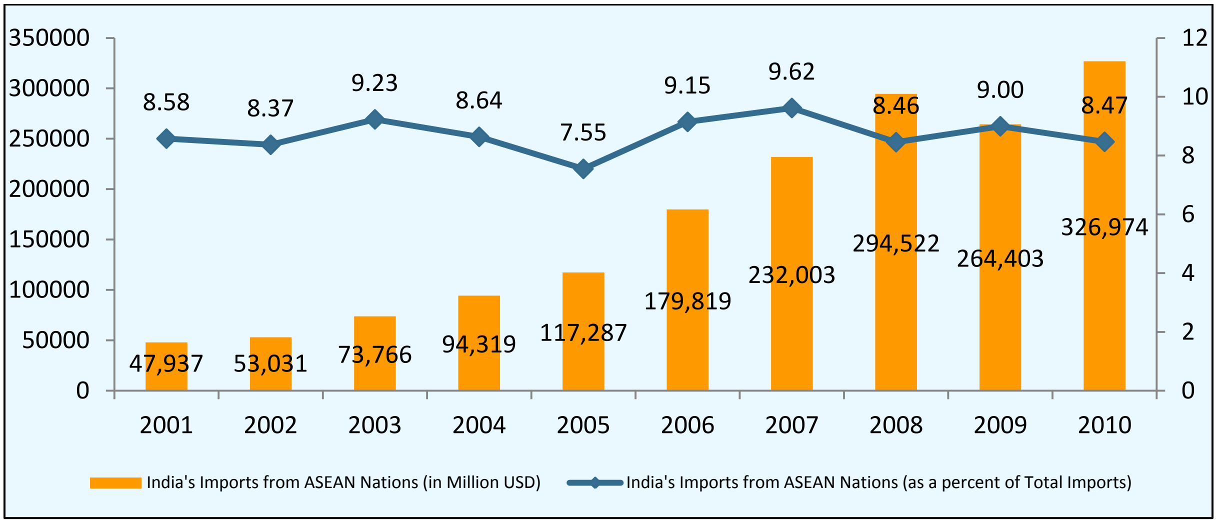
Table 3: India's Exports to ASEAN Members (at Constant Prices, 2001)



Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

Similarly, while imports have grown nearly nine times in constant dollar terms between 2001 and 2010, the percentage of trade remains more or less stationary at around 8.5 per cent of total imports.

Table 4: India's Imports from ASEAN Members (at Constant Prices, 2001)

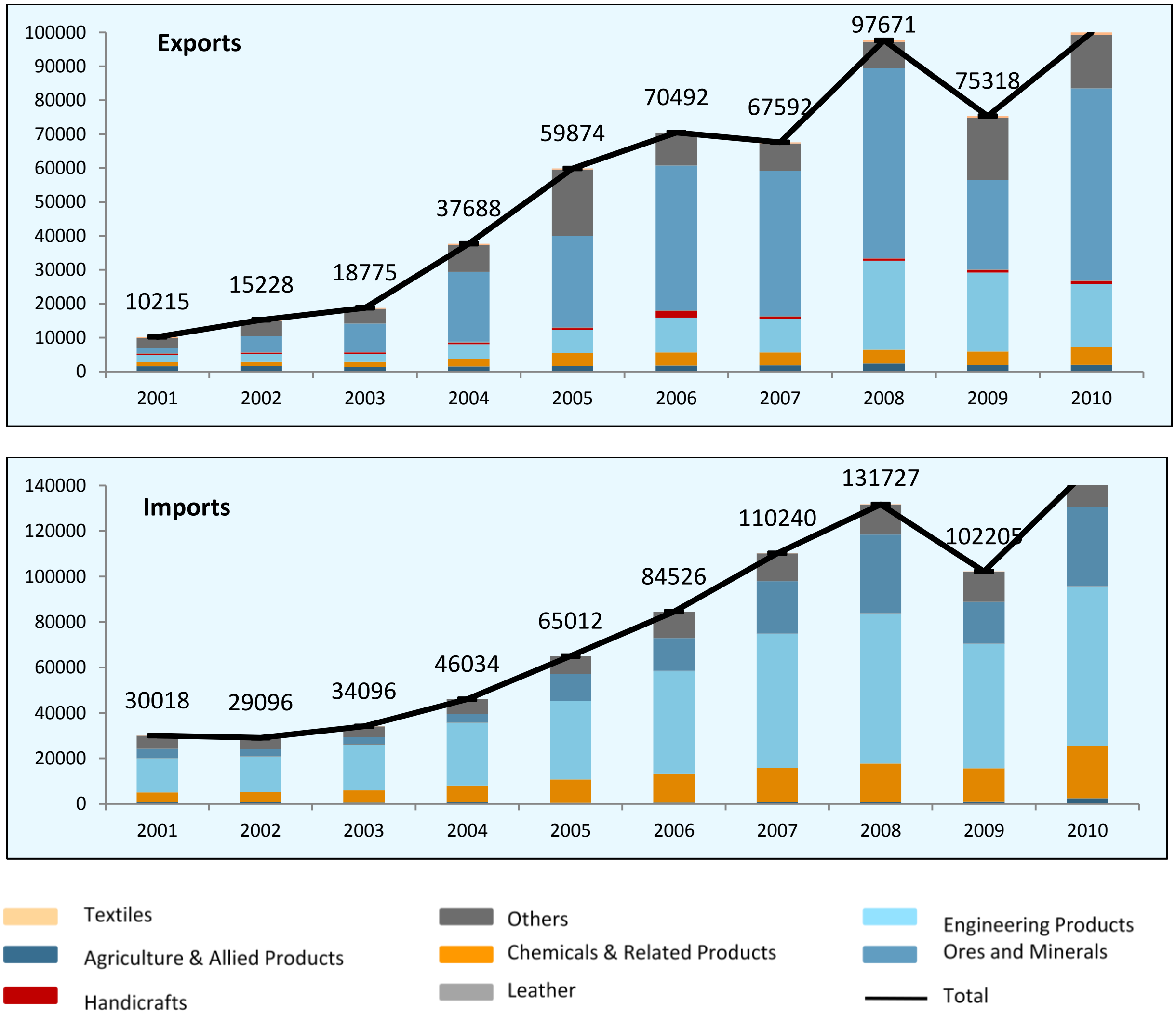


Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

Of interest is the trade with Singapore, which has grown multi-fold even at constant prices. India's exports to Singapore have grown from US$ 10215 m in 2001 to around US$ 97000 m in 2010. Imports from Singapore to India have also increased at the same pace. There has been a gradual change in the composition of trade over the years. Manufactured goods, especially engineering products, have started to constitute a significant proportion of India's imports from Singapore. While these figure in the exports list as well, it is apparent that India has integrated more with the global economy, with intermediate as well as finished manufacturing goods, including engineering goods and chemicals, finding global acceptance and even integrating into global value chains. This is a clear indication of the rising levels of sophistication of the Indian economy. There continues to be a significant reliance on agricultural goods in both imports and exports. There is considerable import of palm oil from Malaysia and pulses from Myanmar as well as timber from Indonesia into India. Indian spices, rice and other condiments find their way into ASEAN markets, to cater not only to ethnic South Asian population there, but to local palates as well. The decline in the proportion of handicrafts in the bilateral trade indicates the growing up of the Indian economy. Leather figures in both imports as well as exports, indicating that some value addition is taking place in India.

The dip in trade in 2009 is attributable to the effects of the global financial crisis of that year. It is interesting to note the sharp and quick recovery in the next year indicating the resilience of both the economies. This also indicates that over the years, there has been an increasing degree of sophistication in India's trade flows and practices.

<u>Table 5:</u> Trends in India's Trade with Singapore (In Million USD, at Constant Prices - 2001)

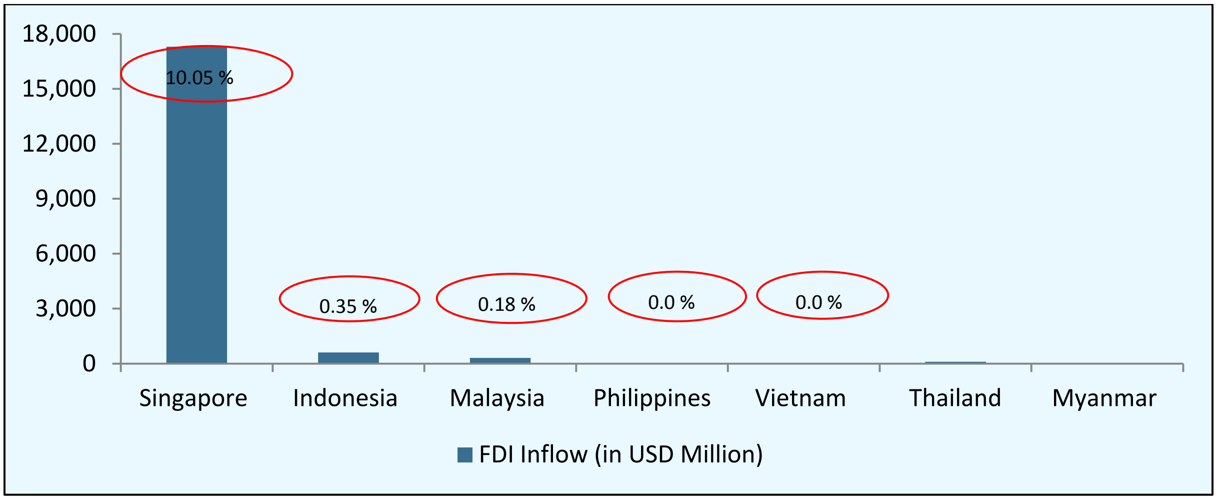


Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

Trade in financial services has grown hand in hand with trade in goods and services. There has been a substantial flow of FDI from the ASEAN countries, overwhelmingly from Singapore.

It must be noted that a number of Indian companies have used Singapore as a base for raising capital and investing into India, and hence the FDI figures could well account for inward investment by Indian companies as well. In any case, Singapore benefits substantially from these transactions, through its banks, and other service providers that include law and financial services firms. The contribution from other countries has been negligible so far. However, Indian companies have invested in Thailand (manufacturing), Malaysia (palm oil and rubber), and Indonesia (coal) and even in Laos and Cambodia (agriculture). India is looking at the ASEAN countries to meet its growing shortage of primary goods.

<u>Table 6:</u> FDI Inflows in India from ASEAN Members from 2000 to 2012 (In Million USD)



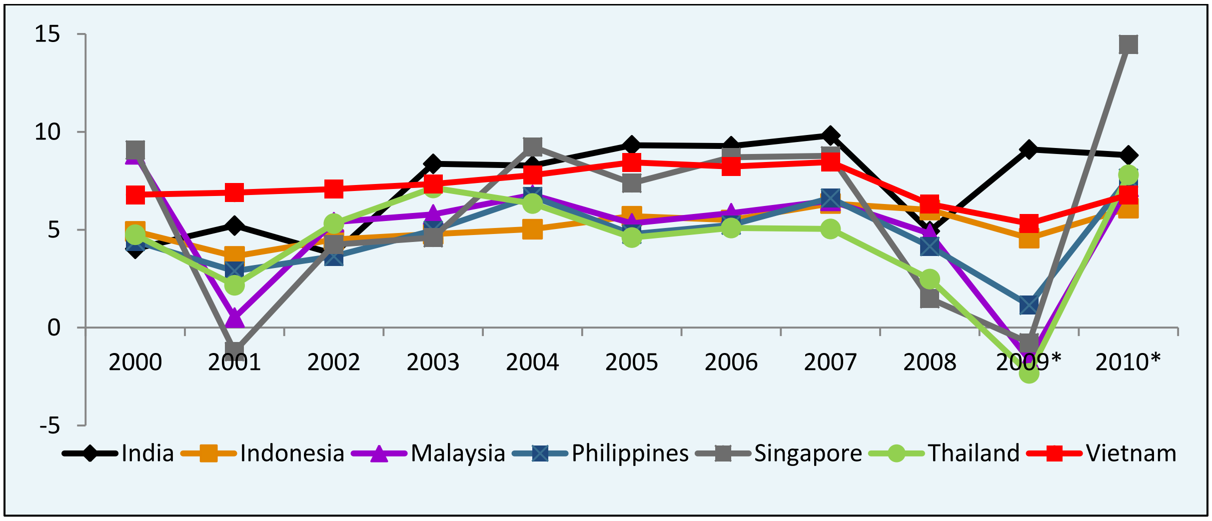
Source: Fact Sheet on Foreign Direct Investment from April 2000 to April 2012, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India

It is clear that India's trade strategy has undergone a significant change in the last decade. The recent India-ASEAN free trade agreement is a clear indicator of this. For the first time, the negative list has become quite small, and nearly 90 per cent of India's trade is covered by this agreement. It is clear that India realises that it needs ASEAN, not just for access to sophisticated financial services and markets, but also as a source of basic goods like edible oils, rubber, timber, and coal. Diversification of energy trade requires India to rely on oil from Malaysia and Brunei, as well as to keep the trade route open for energy imports from Australia, with Singapore as a major trading hub. The integration is with India's needs in mind, and since India represents a very large consumption market, the agreement would be of great advantage to the ASEAN nations, who would continue to supply the products that India needs.

Annexure

A.1 Macroeconomic Profile of India and Southeast Asia

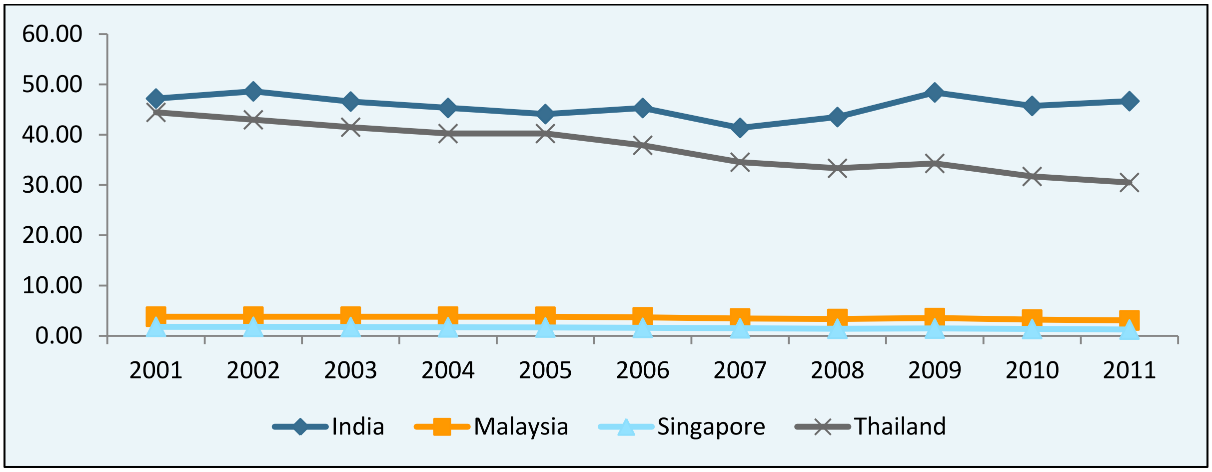
Figure A.1.1: Growth of Economies: India and ASEAN Members



Source: Gross Development Product, Deflated at 2001 Prices; World Development Indicators and Global Development Finance, DataBank, World Bank

- The ASEAN countries faced very low growth rates in early 2000s and 2009 due to the Southeast Asian Financial Crisis and the International Financial Crisis respectively
- The average growth rate from 2003-07 in these 6 countries together (excluding India) was 6.1% , with the average growth rate of Vietnam and Singapore being amongst the highest at 8.1% and 7.5% respectively.
- According to the OECD Economic Development Outlook, these countries are expected to continue with this growth rate of 6% till 2015.

<u>Figure A.1.2</u>: Exchange Rates (Local Currency Unit per US Dollar)

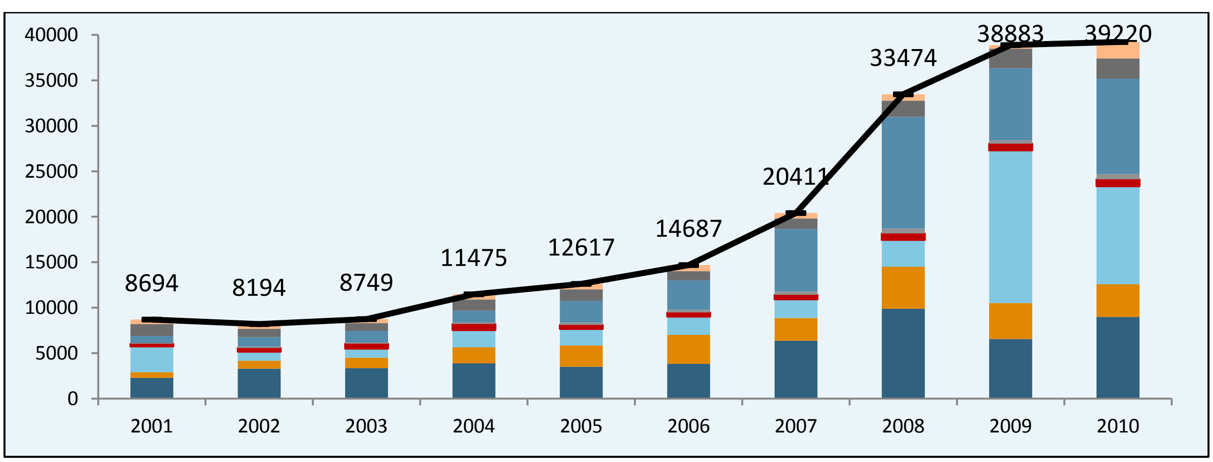


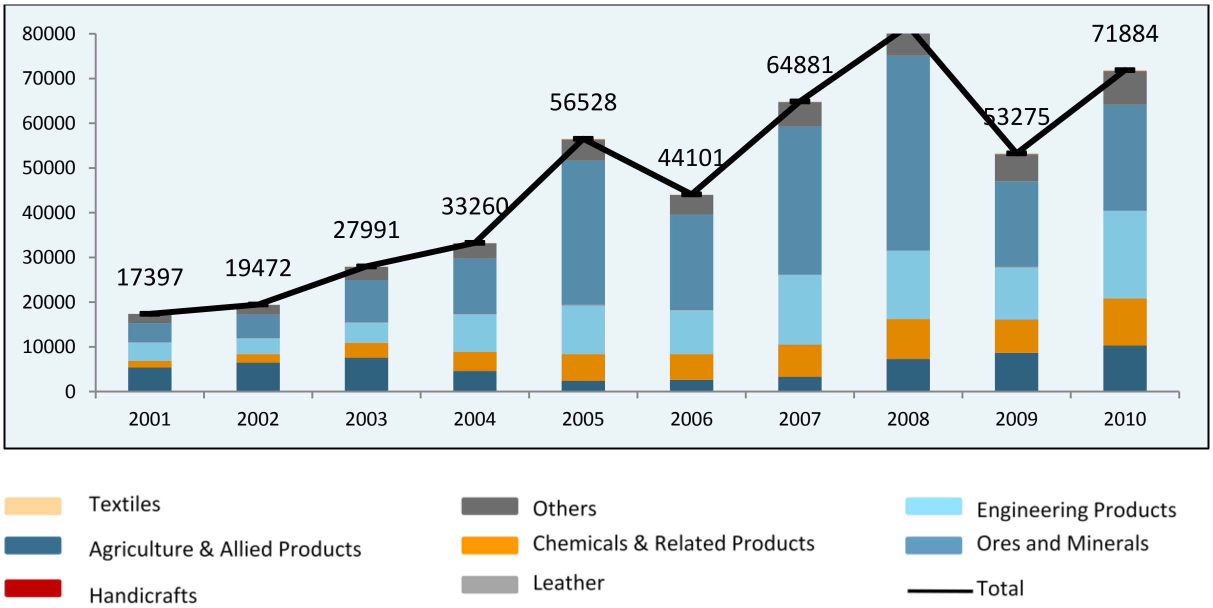
Source: Official Exchange Rate in Local Currency Unit per US Dollar; World Development Indicators and Global Development Finance, DataBank, World Bank

- ASEAN Nations have experienced less volatility in the value of their national currency with respect to US Dollar.
- The Thai Baht has appreciated to its highest value in 2010, since the Southeast Asian Economic Crisis of 1997. It gained by 2.9% in September 2010 from the previous month, which had been the best performance among the major currencies in Asia.
- On the contrary, the Indian currency has depreciated by 10.24% in March 2012.

A.2 Trends in India's Trade with ASEAN Members

<u>Figure A.2.1</u>: Trends in India's Trade with Malaysia (In Million USD, at Constant Prices – 2001)

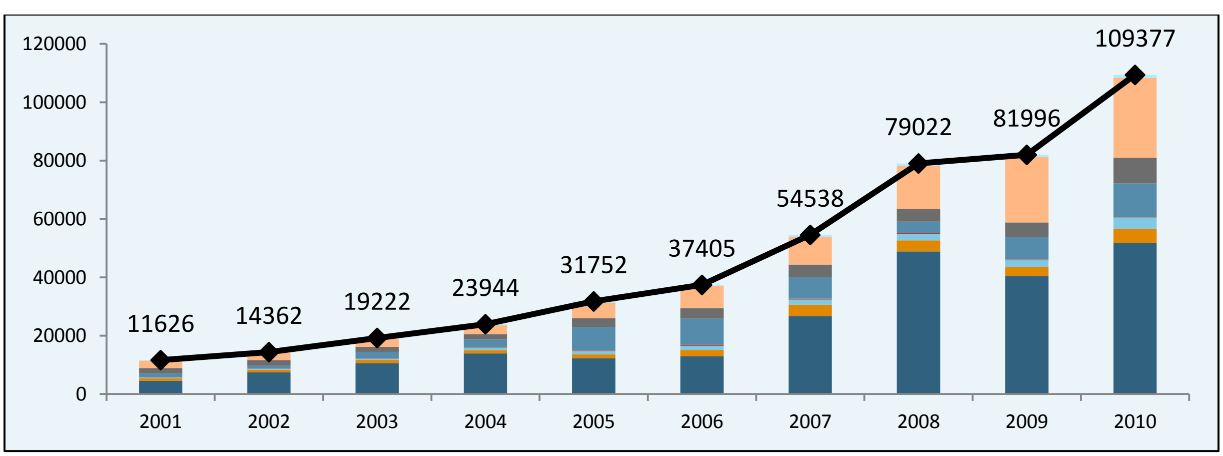


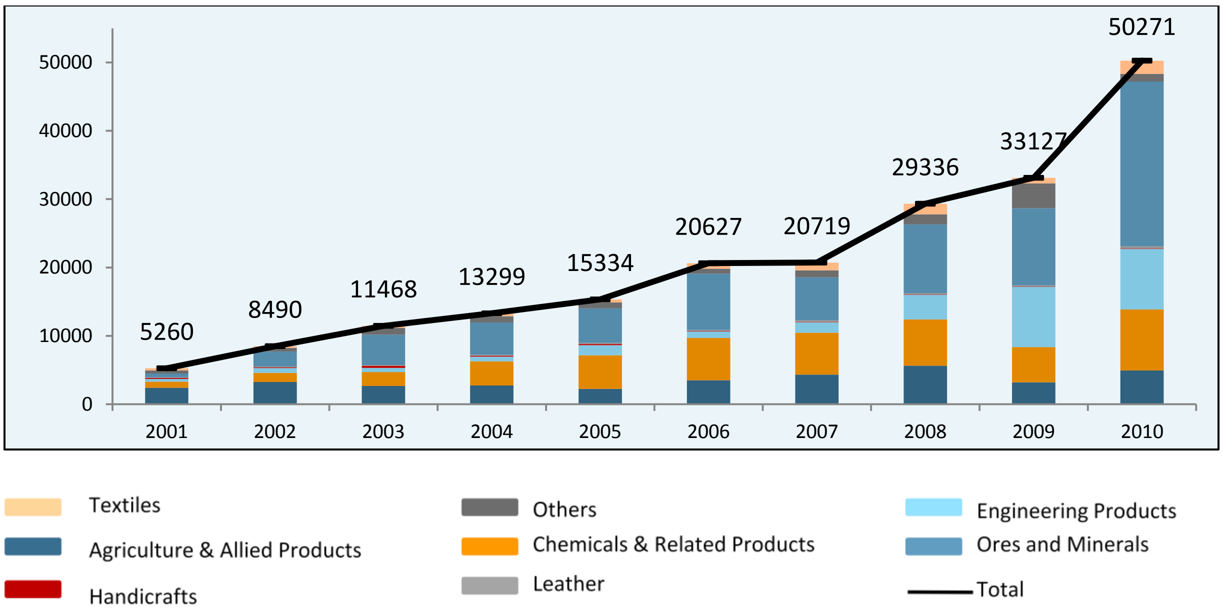


Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

- The exports to Malaysia have grown at an annual compounded rate of 16%.
- Of all the goods, the major export products to Malaysia include engineering and ores and minerals with their respective shares of 27.5% and 26.8% in the total exports in 2010.
- Increase in textile exports by 37.23% in 2010 from its previous year. India mainly imports minerals and ores from Malaysia. However its share has reduced from 53.2% of the total imports in 2008 to 32.9% in 2010

<u>Figure A.2.2</u>: Trends in India's Trade with Indonesia (In Million USD, at Constant Prices – 2001)

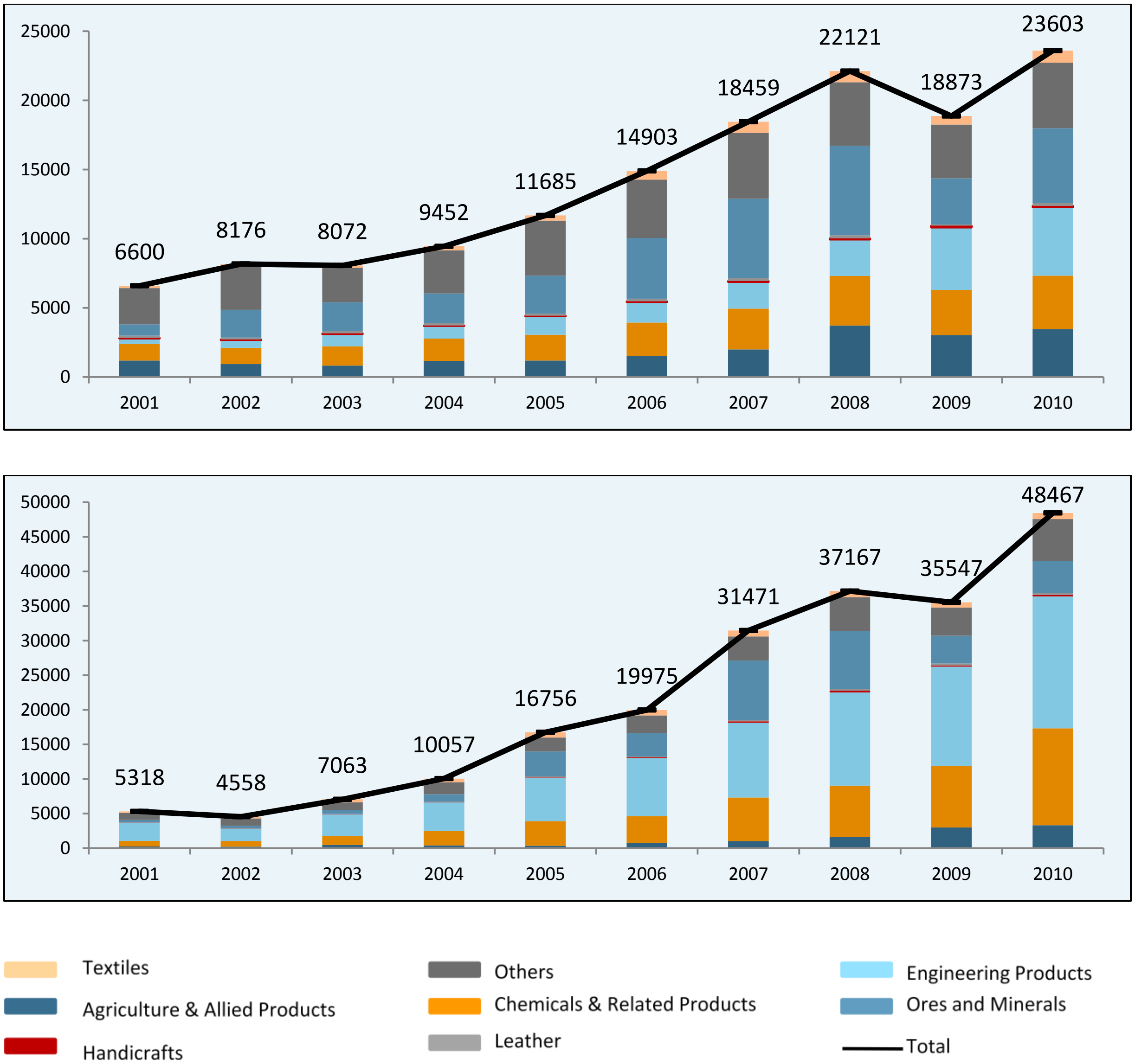




Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

- The exports to Indonesia have grown at an annual compounded rate of 25.32%.
- Of all the goods, the major export product to Indonesia are engineering and mineral products, with their respective annual growth rate in the last decade being 36.4% and 45.3%
- There has been an increase in the exports of Chemical products and textiles in 2010.
- India mainly imports Agricultural Products from Indonesia, with its share being 47% of the total imports in 2010.

<u>Figure A.2.3:</u> Trends in India's Trade with Thailand (In Million USD, at Constant Prices – 2001)



Source: Trade Competitiveness Map, Trade Statistics for International Business Development, International Trade Centre, Geneva, Switzerland

- The exports to Thailand has grown at an annual compounded rate of 13.59% in the last decade
- In the same period, the imports to India from Thailand have grown at an annual compounded rate of 24.73%.
- Till 2003, India had a trade surplus with Thailand. Since 2004, deficit has grown annually by 45%.
- The reason for this deficit can be attributed to the increase in the imports of engineering products at an annual rate of 22%.

A.3 Trade Policy Agreements

A.3.1: ASEAN – India Free Trade Area (AIFTA)

- ASEAN and India signed the ASEAN – India Trade in Goods (TIG) Agreement in Bangkok on 13th August 2009. This agreement came into force on 1st January 2010.
- The main features of the AIFTA are:

i) A phased reduction of import duties on Indian and ASEAN members' agricultural and non-agricultural products between January 2010 and January 2016.

ii) India, Indonesia, Malaysia, Singapore, Thailand and Brunei Darussalam have to eliminate tariffs by 2013 for the products under Normal Track 1 (NT-1) and by 2016 for products under Normal Track – 2 (NT – 2). The items under NT – 1 and NT – 2 include: mineral fuels, chemical products, plastics, rubber, iron and steel, electrical equipments, transport and machinery.

iii) Nearly 70% of the tariff lines fall under the NT-1, covering agriculture, marine and manufactured goods. Nine per cent fall under NT-2. There rest of the 496 products constitutes the Exclusion List, which form 9.8% of the total goods traded. The remaining 11.1 % belong to the Sensitive Track (ST) and the rest of the 0.1% items are Special Products. These two categories are non-free trade products.

- Overall, AIFTA is a trade liberalisation of over 90% of products traded between the two regions. Tariffs of over 4000 product lines will be eliminated by 2016.

Table A.3.1: Targets for Tariff Reduction set under AIFTA Agreement for Agricultural Sector

	Product Category (Based on HS Code)	Average Preferential Tariff in 2007 for Most Favoured Nations (%)	Average Preferential Tariff in 2010 (%)	Average Preferential Tariff in 2013(%)
Normal Track – 1	Meat and edible meat offal	30.0	25.0	0.0
	Products of animal origin	28.7	23.8	0.0
	Edible fruits, nuts, peel of citrus fruits, melons	27.4	22.9	0.0

	Coffee, tea, meat and spices	30.0	25.0	0.0
	Lac, gums, resins, vegetable saps and extracts	27.0	22.5	0.0
	Residues, Wastes of Food industry, animal fodder	29.1	24.1	0.0
	Miscellaneous edible preparations	31.0	25.0	0.0
Normal Track -2	Coffee, tea, spices (Cardamom and Saffron)	30.0	25.0	11.0
	Milling products, malt, starches, insulin, wheat gluten (Rye flour)	30.0	25.0	11.0
	Animal, vegetable fats and oils, cleavage products	37.0	23.6	10.0

Source: Table 2. India's Tariff Reduction Scenario of Major Agricultural Sectors under Normal Track, pp. 15 and Table 3. India's Tariff Reduction Scenario of Major Agricultural Sectors under Normal Track, pp. 16, Smitha Francis (2011)

Table A.3.2: Targets for Tariff Reduction set under AIFTA Agreement for Non - Agricultural Sector

	Product Category (Based on HS Code)	Average Preferential Tariff in 2007 for Most Favoured Nations (%)	Average Preferential Tariff in 2010 (%)	Average Preferential Tariff in 2013(%)
Normal Track – 1 and Normal Track -2	Mineral fuels, oils, distillation products	8.5	6.4	0.0
	Organic chemicals	7.1	4.9	2.0
	Miscellaneous chemical products	8.8	6.3	3.0
	Plastics and articles thereof	7.5	5.0	2.5

Rubber and articles thereof	9.4	7.1	3.0
Pearls, precious stones, metals, coins, etc	9.2	6.9	0.0
Iron and steel	10.0	7.5	0.0
Electrical, electronic equipment	6.1	4.4	2.7
Vehicles, other than railway and tramway	17.0	9.1	3.0
Optical, photo, technical, medical, etc	7.3	5.1	2.2

Source: Table 4. India's Tariff Reduction Scenario of Non - Major Agricultural Sectors under Normal Track, pp. 17 and Table 5. India's Tariff Reduction Scenario of Non - Major Agricultural Sectors under Normal Track, pp. 17, Smitha Francis (2011)

References

Francis Smitha (2011) 'The ASEAN-India Free Trade Agreement: A sectoral impact analysis of increased trade integration in goods' Economic and Political Weekly, Vol. 46, No. 02, January

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