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India ASEAN FTA in Services

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India and ASEAN finalized the Free Trade Agreement in services and investments on 20 December, on the sidelines of the commemorative India- ASEAN summit in New Delhi last week. The final legal documents on services and investment pact is to be given further shape by February 2013, and signing could take place in August during the consultations between ASEAN economic ministers in Brunei.

ASEAN and India signed the ASEAN-India Trade in Goods (TIG) agreement in 2009, and this agreement came into force from 1 January 2010. This agreement has provided for a phased reduction of import duties between India and the ASEAN member countries' agricultural and non-agricultural products between January 2010 and January 2016. Overall, the trade liberalization envisaged covers over 90% of products traded between the two regions. By 2016, tariffs of over 4000 product lines would be eliminated.

Trade between ASEAN and India has been growing at a growth rate of 21.3% per annum in the decade 2001-2010. Over this period, foreign direct investment of around US$ 18 billion has flowed into India from ASEAN countries, mostly from Singapore. Two way trades reached US$ 80 billion in 2011, and there is an expectation that, with the signing of the services agreement, this would cross US$ 100 billion in 2015.

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Among the ASEAN countries, India's trade links with Singapore, Malaysia, Indonesia and Thailand has been significant, while with Vietnam, Cambodia, Laos and Brunei Darussalam, it has been quite small. There has been a significant change in India's trade strategy in the last decade. For the first time, the negative list is quite small, and nearly 90% of the total trade in goods is covered by the 2009 agreement.[2] India needs ASEAN as a source of raw material and basic goods like edible oils, rubber, timber and coal. Diversification of energy trade requires reliance on oil from Malaysia and Brunei. At the same time, increasing globalization enables India to export intermediate manufactured goods in engineering, pharmaceutical, petrochemical and related sectors to integrate into global trade flows.

The FTA in services and investments is intended to enlarge these opportunities to the mutual benefit of the participating countries. The Prime Minister of India has stated that, following the implementation of FTA in goods, trade grew by 41% in 2011-12. "Two way flows in investments have also grown to reach US$ 43 billion over the past decade. As ASEAN investments into India have multiplied, ASEAN countries have emerged as major destinations for Indian companies. From energy sources to farm products, from materials to machinery, and from electronics to information technology, Indian and ASEAN companies are forging new partnerships of trade and investment", Dr Manmohan Singh said.[3]

India has been demanding that ASEAN should open up its service sector further. The new agreement provides for enlargement of the scope of services to cover healthcare, tourism. Transportation services, construction and commercial sectors.

Under the ambit of this agreement there would be facilitation for temporary movement of business people, contractual service supplies, movement of independent professionals in accounting, architecture, engineering, medical and dental services, as well as in nursing and pharmacy services, computer services and management consulting. After a tough round of negotiations, India agreed to drop its request for independent professional services, and, as a tradeoff, ASEAN dropped its request for prudential measures in financial services.

The implications of this agreement are widespread. First, it would lead to a rapid increase in trade between India and ASEAN, which could well reach US$ 200 billion by 2017. Second, it signifies recognition on both sides of the advantages of using regional geography and mutual competitive advantages to enlarge global competitiveness. For India, ASEAN is a natural source for a number of primary materials including pulses, oils, timber, coal, and energy, and for ASEAN the professional services that India can offer are likely to be extremely competitive in price and quality and thus enhance the competitiveness of local firms. Most importantly, India has developed financial markets, and products and processes could be leveraged across the boundaries for better access to capital and to finances. With the rapid growth in consumption demands in India, ASEAN products offer a natural enhancement of the supply chain for India, while ASEAN is a ready market for Indian intermediate goods

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2 ISAS Insights 182 - India- ASEAN trade profile, dated 14 August 2012.

3 The Hindu December 20, 2012.

seeking global markets. In services, Indian firms are already competing with global majors in business and consultancy services, and in health care delivery as well as financial services. There is thus a significant opportunity for mutual complementarily.

Third, it implies a recognition that trade with Asia is likely to grow faster than the trade with the developed world - in short, that the coming decade is a decade of Asian growth. ASEAN countries are likely to continue to grow at healthy levels. Growth and inflationary volatility is low in the ASEAN, and individual countries like Indonesia, Singapore and Malaysia have been recording steady five percent plus growth with low inflation for several years, a trend that is likely to continue. There is a growing pool of qualified professionals in the services and investment sector in India, who are naturally looking for global opportunities. With the openings in developed markets drying up, this FTA would offer fresh markets and opportunities for these professionals. At the same time, ASEAN professionals would have the opportunity of accessing the rapidly growing service delivery markets in India.

Fourth, the integration of these services would also introduce India to global practices in these sectors, especially, architecture, health care, construction and real estate management and the like. The welfare benefits of such integration are likely to be far beyond trade effects. Indian firms, currently not exposed to international markets, would have an opportunity to improve product, production and service delivery efficiencies to match ASEAN standards and norms.

At the strategic level, it reaffirms India's engagement with ASEAN - a continuation of its 'look east policy'. It also opens up opportunities for similar agreements with other countries, including Australia, Japan, and South Korea. It also offers a template for negotiations with the European Union on services. The negotiations have been a huge learning experience for India, whose negotiators have often been accused of being very reluctant brides at the wedding. This agreement is likely to give India the confidence to embark on larger agreements with likeminded blocs.

Singapore has already been a beneficiary of this mutually enhancing growth process since the signing of the CECA in 2005. India – ASEAN trade is still dominated by India- Singapore numbers, and it is unlikely that Singapore would be a loser in this agreement. Rather, the Singapore experience would serve as a touchstone for businesses on both sides seeking to establish themselves in the host country.

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