



## India, Southeast Asia and the FTA Strengthening Economic Integration

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It was Ong Keng Yong, the then Secretary General of the Association of Southeast Asian Nations (ASEAN), who insisted in early 2007 that India, Australia and New Zealand should be included in plans to establish a free-trade zone covering all 16 nations who participate in the East Asia Summit (EAS). ASEAN economic ministers agreed at the time to study a Japanese proposal for a 16 nation free-trade area, which would harness 3 billion people and an economic output of US\$9 trillion. Japan's plan rivalled a separate review by a Chinese academic for an economic bloc consisting of only ASEAN Plus Three.

However, the outcome of the summit held in Singapore in December 2007 was that China's demand that only ASEAN Plus Three should be included in the community was recognized. India's failure to sign the Free Trade Agreement (FTA) with ASEAN facilitated China's attempt to keep India out of the big club, highlighting once again India's skewed decision-making process and its failure to recognize the importance of time and opportunity, which once lost are difficult to come by again. That recognition dawned on India last July when the economist in Prime Minister Manmohan Singh tried to recover the lost ground and secured his cabinet's clearance for the trade agreement.

This essay analyses the implications of the FTA for India, while also considering the future face of India's trade with ASEAN.

### FTA: OVERCOMING THE OPPOSITION

Manmohan Singh fielded his heavyweight ministers and marshalled powerful arguments to deal with political resistance from his colleagues from southern states who were concerned that cheap imports from Southeast Asia, facilitated by the FTA, would hurt domestic growers of tea, coffee, cashew, coconut, spices and rubber, as well as manufacturers of auto components.

"A free trade agreement with ASEAN is an international political commitment and is also part of the Look East Policy," the *Economic Times* quoted Prime Minister Singh as saying during the Cabinet meeting held on 24 July 2009. In deference to the wishes of the ASEAN countries he even advanced the date of signing the FTA from the October summit to 13 August, on the sidelines of the Trade Ministers' meeting of ASEAN in Bangkok.

Fears about an influx of foreign goods driving domestic players out of business are unfounded if India's experience with cheap Chinese imports is anything to go by. After decades of protection from trade prevented growth, liberalization made many Indian businesses globally competitive. Yet New Delhi succumbs to pressure from the powerful domestic lobby and deprives consumers from enjoying cheaper goods. It continues to insist that coddling India's farmers is the route out of poverty, as it constrains property rights and the freedom to trade even inside India.

What clinched the agreement in the Cabinet was

the powerful argument that if India were to pull out of negotiations on the FTA with ASEAN it would suffer diplomatic embarrassment and a huge loss of face and would drive ASEAN into a tighter strategic clinch with China on the rebound. Coming soon after the fiasco over the Indo-Pak joint statement, which received flak both from a belligerent opposition and a significant section of his own Congress party, failure to get it through would have been seen as a major blow to Singh's authority. It would also have impacted on India's credibility as a major player on the emerging political, economic and strategic scene in the Asia-Pacific region.

Signing of the FTA has signalled India's continuing commitment to economic integration and political cooperation with Southeast Asia. It is geared to taking India's engagement with ASEAN to the next level from diplomatic manoeuvre beyond its South Asian confines to the creation of mutual synergies to pave the way for an Asian Economic Community. "The FTA with ASEAN will lead to closer economic integration, taking the level of cooperation between both the sides several notches higher," to quote Biswajit Dhar, director general, Research and Information System for Developing Countries, an important think-tank providing input to the policy-making process of India's Ministry of External Affairs.

## II IMPLICATIONS FOR INDIA

The FTA is as important for India as it is for the ASEAN, especially when global trade has shrunk and continues to shrink, and when a new multilateral global trade pact under the Doha

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round of talks is nowhere in sight. Exports to the West from both India and the ASEAN have fallen.

ASEAN is already one of the world's largest trade blocs, and an FTA with India (next in importance only to the ASEAN-China FTA, signed in 2007) will expand the market further. India-ASEAN trade has risen from around US\$7 billion in 2000-01 to US\$39 billion in 2007-08. With tariffs rationalized, it is expected to rise even further to its target of US\$50 billion by 2010. Moreover, it will open up the US\$1.1 trillion ASEAN market for its exporters, reducing their dependence on the West.

Sceptics, however, argue that India's export baskets are extremely small and that the fact that they are often in competition with ASEAN's larger export baskets, means that opening up the Southeast Asian market will be of little benefit to India. However, the political dividends that the FTA brings outweigh all other doubts. ASEAN, which accounts for nearly 11 per cent of India's exports and 9 per cent of imports, has strategic importance for the country. Moreover, globalization is never a zero-sum game. Free trade with ASEAN will be of great benefit to the economy as a whole, particularly consumers. Regional trade blocs such as this should be seen as building blocks for global free trade. The India-ASEAN trade bloc will be the fourth largest in the world and falls in line with New Delhi's 'Look East' policy.

The economic dividend is no less significant. Asia's globally recognized economic clout in the 21st century would be reinforced if Asian nations did business with each other on the basis of mutual synergies. The interests of ASEAN are equally served by engaging with an Asian counterweight to China. Trade and investment, as well as cooperation on global issues, have driven India's 'Look East' initiative. In the short-term India does not stand to gain much from the FTA economically because of the already low tariff levels maintained by ASEAN with respect to India. Nonetheless, the gains for India have been perceived more in terms of the contribution of the FTA to regional consolidation and concomitant to regional peace and security. Being part of an FTA with ASEAN will also offer India greater bargaining

power at multilateral negotiations by tying with partner countries through regional commitments.

### III FTA: PROVISIONS & THE FUTURE

The present agreement covers only trade in merchandise, and does not apply to services which is India's strong point, or even to the flow of investments. The balance of merchandise trade between India and the ASEAN region is tilted towards the ASEAN. This is likely to remain unchanged even after the expansion of mutual trade, post-FTA. The imbalance can be corrected only when services and investments are covered with a fresh agreement pertaining to trade in services just like the agreement on trade in goods (TIG).

It is in India's interest to take this FTA to a Comprehensive Economic Cooperation Agreement (CECA), with liberalization in banking, IT, telecommunications, education, tourism and cross border investment agreements. India has global competitiveness in service exports with a share of 2.73% (ranked eighth) in world exports of commercial services, while ASEAN is a net importer. Possessing high expertise in services such as IT, telecommunication services, professional services, health-care and distribution, India can tap the ASEAN markets and enhance cooperation with ASEAN.

In the future, gains from the India-ASEAN FTA will predominantly be in the areas of education, movement of professionals, SME products, business services and collaborations and the WTO. India is likely to gain from an integrated production network with ASEAN especially in the automobile industry. India hopes to extend this possibility to other industries and sectors as well. In the area of infrastructure, India is collaborating extensively with Myanmar to build roads and port infrastructure. This would benefit India by providing

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greater access to the ASEAN market along with opening up opportunities for the northeast, an otherwise landlocked region.

The protracted FTA negotiations between India and the ASEAN have followed a chequered

#### TRADE WITHOUT TRADE

	Duty to be cut to	Share in products traded*	Duty cuts to be achieved by**
Normal Products-1	0%	80%	Dec 31, 2013
Normal Products-2	0%	-	Dec 31, 2016
Sensitive Products	5%	10%	Dec 31, 2016
Highly Sensitive Products	30%-45%	crude and refined palm oil, tea, coffee, pepper	Dec 31, 2019

\* About 5,000 products.

\*\* After being postponed by a year

course. Beginning in 2003 and scheduled originally to conclude by 2005, the talks broke down several times. India initially included a rather long negative list of 1,414 products which it wanted exempted from the tariff cuts; it also resisted the sharp reduction in tariffs on palm oil and its products demanded by Indonesia and Malaysia, besides the rules for value addition. These issues were ultimately resolved, as were differences over fresh demands put forth by the ASEAN. The FTA now provides elimination of tariffs on 80% (about 4,000 items) of traded products, both agricultural and industrial, like consumer electronics, a range of farm products, metals and chemicals, in a phased manner by 2015. For about 10 per cent (500 items) of additional products that have been placed on the sensitive track, the tariffs will not be eliminated but brought down to 5 per cent. India has 489 items, mostly farm products, on the negative list which will not be subject to tariff cuts. The highly-sensitive list contains five key items - crude palm oil, refined palm oil, coffee, tea and pepper.

The market access for palm oil proved to be a major obstacle, especially for Indonesia and Malaysia. India agreed to cut the tariff on crude palm oil by 37.5 per cent and on refined palm oil by 45 per cent. The import duties on the other four were to be reduced to half. Both were to be achieved by 2018. ASEAN members wanted the first round of duty cuts to be implemented as and when the deal was signed in 2009, followed by the next round in January 2010. However, India declined to undertake duty cuts twice in a period of one year, and finally settled for only once in a period of 12 months. The tariff cuts will be announced in various blocks (see table) every January.

An important aspect of India's approach towards the FTA is its inclusion of a shorter negative list of goods than China, which obviously has superior negotiating capabilities compared to India. Negotiations on the Sino-ASEAN FTA have been much smoother than the India-ASEAN FTA. China's approach towards an FTA with ASEAN includes an emphasis on facing lower anti-dumping duties whereas India is imposing greater anti-dumping duties on ASEAN.

### CONCLUSIONS

The main objective of India's 'Look East' policy toward Southeast Asia is economic integration with the region. India's success in this sphere is quite significant, as the interactions that began in the early 1990s with a sectoral dialogue partnership with ASEAN and graduated to India's becoming part of the EAS, have resulted in considerably greater integration with the rest of Asia than is commonly realized or acknowledged.

Even though India's trade and investment in the region is quite insignificant compared to its share in global trade and also in comparison with China, their quantum leap and growth in the last decade has been quite spectacular if one looks at where it started. The India-ASEAN FTA is another step forward toward further widening and deepening that integration.

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*SEARP is supported by the SAEA Group,  
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