



AIC COMMENTARY

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A Decade and More of the India - ASEAN FTA

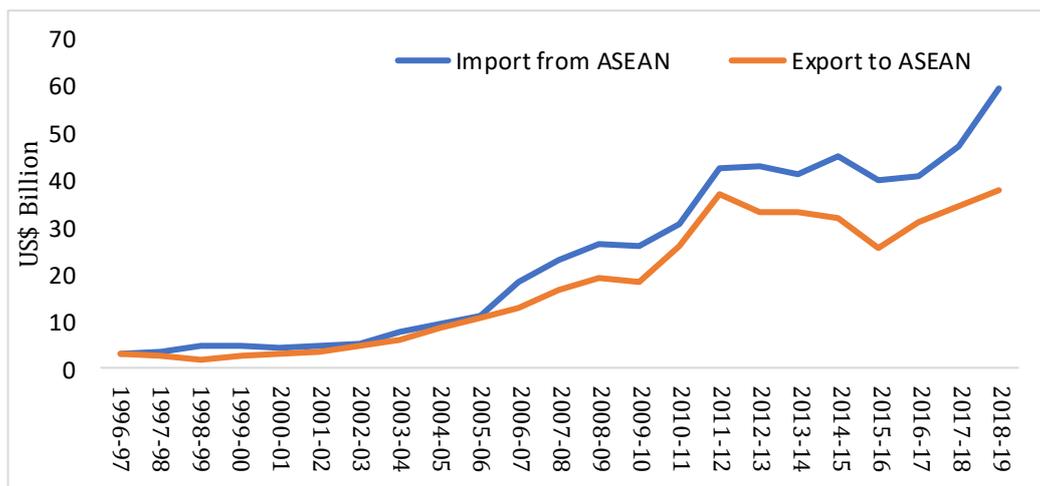
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1. Introduction

India signed its Free Trade Agreement (FTA) with the Association of South East Nations (ASEAN), in Bangkok on 13 August 2009, a little over a decade ago. This took place ahead of the 7th India – ASEAN Summit, held in Hua Hin, Thailand in 24 October 2009. The FTA document addressed trade in goods, with the FTA on investment and services to follow. The latter was signed in September 2014 by India and by ASEAN in January 2015.

How has India fared on the ASEAN trade front for the last two decades? Our Look East Policy, in which trade has played a crucial part, is also more than two decades old. Prima Facie it appears that it is the ASEAN that has benefited more than India in this regard. A simple look at the Figure 1 for the two way flows reveals that the advantage rests with the ASEAN region.

Figure 1: Trends in India's Trade with ASEAN



Source: Drawn based on Export-Import Database, Government of India

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2. Performance over Time

It was in October 2003 that India decided to enter into discussions with the ASEAN for the FTA. If one compares the respective national ratios of export of goods and services to GDP of ASEAN countries with India, the data clearly reveals the advantages that each of these countries have. In this comparison, countries like Singapore (a free port), Brunei (oil & gas accounts for 90 per cent of exports by value), and Cambodia, Lao PDR and Myanmar too (the size of whose economies are smaller and composition of exports is somewhat skewed), have not been included.

A comparison of India's export of goods and services to GDP ratios, with those of Thailand, Malaysia, Indonesia, Philippines and Vietnam, reveals the following. Figures for the period from 1992 (launch of India's Look East Policy) and 2018 (commencement of global trade tensions) have been considered. A look at the averages over the last two decades clearly reveals a distinct gap between India and the selected ASEAN countries in the export performance indicator.

Table 1: Exports Goods and Services to GDP Ratios of India and Select ASEAN Countries since 1992

(%)

	1992	1996	2000	2004	2009	2013	2018	Average
Indonesia	30.31	25.82	40.98	32.22	24.16	23.92	20.97	28.34
Malaysia	75.98	91.58	119.81	115.37	91.42	75.63	69.68	91.35
Philippines	29.13	40.51	51.37	48.57	32.23	28.02	31.68	37.36
Thailand	36.97	39.02	64.84	65.97	64.44	68.12	66.82	58.03
Vietnam	34.75	40.87	53.92	59.73	62.61	83.63	95.39	61.56
India	8.84	10.39	13.00	17.86	20.40	25.43	19.70	16.52

Source: Calculated based on World Development Indicators (ADI), The World Bank

ASEAN countries signed their internal FTA (AFTA) in 1992 at the time when India launched its Look East Policy. The ASEAN had an experience of a decade and more before India even entered into negotiations with them, which probably gave them the head start both on the procedure and process of exploiting an FTA. India's only experience till then had been the SAFTA that entered into force in 2006, which never really took off. Further, the inward investments from Japan, Taiwan, South Korea, USA, etc. into the ASEAN economies also started giving impressive returns by the late-eighties for many ASEAN countries, with most of their outputs being exported to US, other Asian countries and also to the EU. Suffice it to say that by the time India entered the FTA game, ASEAN countries had the double advantage of having matured high-tech inward investments and an efficient export marketing competence to exploit the FTA.

3. Dealing with ASEAN-India FTA

In examining India's trade with the ASEAN group, an analysis has been made on the following basis. The time period chosen for the study is from 1999 to 2018. The data thus obtained has enabled a decadal comparison, before and after the bilateral FTA in goods entered into force.

For the overall comparison, trade data for India – ASEAN trade were sourced from the Department of Commerce, Government of India and a comparison has been made of such periods when sudden increase in India's exports or imports are seen and in the periods before and after signing of the ASEAN-India FTA in 2009.

Due to the rather large number of commodities in the trade tables, a filter system has been introduced. Items are selected on the basis of a value threshold: those items that crossed a value of US\$ 100 million in any given year are identified for the study, in both imports and exports. The Harmonized System (HS) commodity classification developed by the World Customs Organization (WCO) is used in this process.

Before and After the FTA

What has been the significant overall trend? To begin with: the “average annual growth rate” of India's exports to ASEAN for the period 1998–99 to 2007–08, amounted to 20 per cent including two negative growth rates for the years 1997–98 and 1998–99 over the previous years. In 2004–05, the growth of India's exports to ASEAN over the previous year was 44 per cent, a truly impressive performance. Even though the India–ASEAN FTA negotiations commenced in 2003, it would appear that market forces were giving a serendipitous boost to India ASEAN trade in general, and India's exports to ASEAN in particular, in the decade leading up to 2009.

A deeper analysis of the reasons for the sizeable increase or decrease in bilateral trade was carried out for the following seven years, viz., 1998–99, 1999–2000, 2000–01, followed by 2005–06 and 2006–07 and 2009–10 to 2011–12. Specifically, the commodities that contributed to a sudden increase in imports from ASEAN countries in the period between 2005–06 and 2006–07 are identified.

First, India's exports rose from US\$ 1.6 to 2.9 billion from 1998-99 to 2000-01. The category of items listed contributed an average of 80 per cent to the overall increase in the exports of India to ASEAN, in that period. The items included the whole spectrum, viz., vegetable products, chemicals, cotton, textiles, stone glass, metals and machinery.

Second, the sudden increase in imports from ASEAN between 2005–06 and 2006–07, of about 66 per cent, took place at a time when the ASEAN-India FTA negotiations

were in their middle phase. An analysis reveals massive contribution to this increase by items as widely different as agricultural products, natural resources, chemicals of wide origin, paper, metals & metal products, machinery and appliances including electrical and electronic consumer goods, cameras, medical equipment, etc. It is interesting to note that this massive contribution was made by items that fall under the HS 26 to 40 alone with a combined average increase of about 126 per cent over just one year!

Third, in the period between 2009–10 and 2010–11, India's exports to ASEAN again shot up from US\$ 18 billion to US\$ 25.6 billion, an increase of 41 per cent. This the first year after the FTA came into effect. The main items contributing to this increase were, again, vegetable / animal products, sugars and sugar confectionery (massive increase), mineral products, plastics and chemicals, raw hides, skins, leather, cotton, textiles, metals, machinery, transport and other precision equipment covering the field of optics, photography including cinematography. These items alone had contributed an average of 50 per cent to the overall increase in the India's exports to ASEAN. An outlier was the export of sugar from India, which shot up from US\$ 6 million to US\$ 180 million in just one year. This was indeed an aberration, as the exports dropped by half in value in the following two years and further by half in 2013–14.

Fourth, again, there was a massive increase in exports to ASEAN between 2010–11 and 2011–12. The increase was close to 43 per cent with the following items contributing in a significant manner: animal and vegetable products, mineral products, chemicals plastics rubber, metal products, machinery and transport equipment

Items of interest

After observing the commodities described above, under the 2-digit HS that had also crossed the US\$ 100 million threshold before the FTA came into effect, the same are further analyzed at 6-digit and 8-digit HS level. Post-analysis of the commodities at the 8-digit HS classification, 10 specific items are recognized, which also showed a significant fluctuation amongst the pool of commodities, listed in the previous paragraphs. The nine specific commodities belonged to four main categories. Their crest and trough years in value traded either way, are illustrated in Table 2.

4. The Overall Picture

After the signing of the FTA in 2009, overall trade between India and ASEAN grew at the rate of 9 per cent between 2010–11 and 2016–17. ASEAN's exports to India grew at the average rate of 7 per cent, while India's exports to ASEAN grew at the average rate of 10.5 per cent in the same period. However, when we compare a similar seven-

year period before the FTA was signed, i.e., from 2002–03 to 2008–09, the figures for average growth rate for India’s exports to ASEAN comes to nearly 28 per cent and that for ASEAN’s exports to India comes to 30 per cent. Overall bilateral trade between India and ASEAN in the period 2002–03 and 2008–09 grew at 29 per cent. Thus, India ASEAN trade has grown faster before the signing of the FTA, thereby reflecting the genuine interplay of market forces.

Table 2: Gainers and Losers

ITEM Animal or vegetable fats and oils and their cleavage products; pre-Edible fats; animal or vegetable wax.	Average Value of Imports from ASEAN 1999 - 2000 to 2017 - 18	Crest Year	Trough Year	Remarks
Refined palm oil & its fractions	US\$ 109 million	1999 - 2000 US\$1,174.57 million	2007 - 2008 US\$ 0.26 million	
Crude palm oil and its fractions	US\$ 2804 million	1999-2000 US\$ 6,637.46 million	2012-2013 US\$ million 36.83	
Plastics and articles thereof	US\$ 859 million	2014 - 15 US\$ 1892 million	2001 - 02 US\$ 109 million	This category has shown a striking increase from a level of US\$110 million in 2001-02 to US\$ 1.7 billion in 2016-17. Within this category, i.e., Plastics and articles thereof, items listed alongside have shown large fluctuations.
*Linear Low Density Polyethylene (LLDPE)	US\$ 60 million	2014-2015 US\$ 183.69 million	1999-2000 US\$ 2.13 million	
Polypropylene	US\$ 64 million	2017-2018 US\$ 161.79 million	2000-2001 US\$10.54 million	
Polycarbonates	US\$ 78 million	2017-2018 US\$ 217.94 million	1999-2000 US\$ 0.26 million	
Polyurethanes	US\$ 17 million	2017-2018 US\$ 110.43 million	1999-2000 US\$ 0.33 million	
ITEM Natural or cultured pearls, precious or semiprecious stones, precious metals, clad with precious metal and articles thereof; imitation jewelry; coin	Average Value of Exports from India 1999 - 2000 to 2017 - 18	Crest Year	Trough Year	Remarks
Diamond (other than industrial diamond) cut or otherwise worked but not mounted or set	US\$ 636 million	2005-2006 US\$ 1,479.62 million	1999-2000 US\$ 256.27 million	
Jewelry of gold unset	US\$ 118 million	2017-2018 US\$ 249.68 million	2000-2001 US\$ 15.89 million	
Cotton				
Indian cotton of staple length 28.5mm (1.4/32) and above but below 34.5mm	US\$ 187 million	2017-2018 US\$ 508.02 million	1999-2000, 2000-2001, 2001-2002 2003-2004 = 0	

Source: Drawn based on Export-Import Database, Government of India

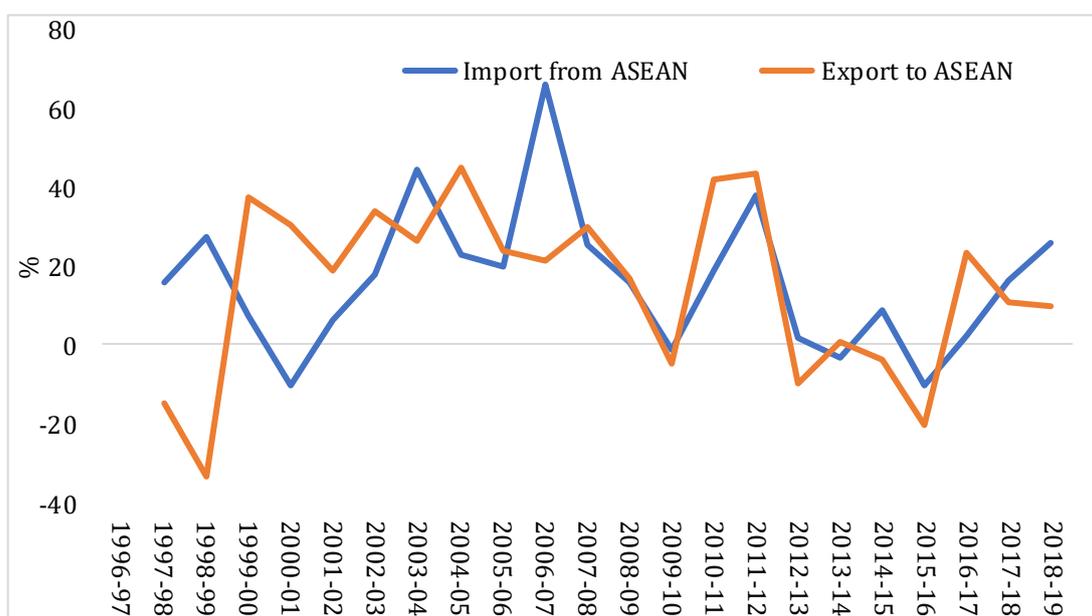
Does it, therefore, imply that the trade performance in post-FTA does not reflect any positive contribution of the FTA? It does, but in a different way. The overall average annual trade between 2002–03 and 2008–09 was around US\$ 12 billion, whereas that

between 2010–11 and 2016–17 is around US\$ 36 billion. An “average period increase” of nearly 3 times! This, however, would include any price increases that would have occurred in the two periods that have been compared.

The one thing that the FTA has done is that it has elevated the base average figure. This can be seen from the Figure 2, which reflects the actual growth having taken place between 2005–06 and 2011–12. After the latter year, the growth from a higher base has been somewhat mixed and modest. However, like in many other cases, our deficit in trade in goods with ASEAN has been widening after signing of the FTA.

The growth in India’s exports to ASEAN has been fluctuating severely. Figure 2 depicts the annual per cent change of India’s imports and exports from and to ASEAN for the period 1997–98 to 2018–19.

Figure 2: Trends in Rate of Growth in ASEAN-India Trade



Source: Drawn based on Export-Import Database, Government of India

If one sees the figures for the growth rate from 2009–10 onwards, the year in which the India-ASEAN FTA entered into force, the picture is rather mixed. There is small negative growth in that year, followed by very high growth rate (albeit from a smaller base) then a sudden dip and then into negative territory with the peak or the nadir being achieved in 2015–16. Although this is true for trade flows either way, it is our exports to ASEAN that show the stark fluctuation.

5. Way Ahead

Given this background, when India-ASEAN bilateral trade has settled at a higher plane, what steps can be taken to enhance it to the next level? As a first step, the focus

should be on the items that have shown both consistency and stark fluctuation in bilateral trade flows, especially the latter. An attempt should be made to identify whether specialized or high value items in the same category can be promoted and traded to enhance the values of bilateral exchanges. If there are any non-tariff barriers on either side, these must be dealt with and removed to ease the trade flow. Certain sectors like agriculture, where many ASEAN countries and India, have specialized knowledge, offer opportunities for exchange of expertise and investment in the food and agro-processing sector.

About a decade back, India helped establish a textile museum exhibiting the prowess of the Mekong-Ganga Cooperation (MGC) member countries (i.e., India, Myanmar, Lao PDR, Cambodia, Thailand and Vietnam). Depicting the innate traditional knowledge and heritage, that forms the theme of the museum, an initiative can be undertaken to promote textile weaves and designs, as dresses/garments for mutual trade. In particular, time and money should be invested in enhancing awareness of traditional knowledge about textile weaving that have survived for centuries and see how these can meet a niche market demand for ethnic textile products, across India and ASEAN countries, and beyond. Both technology and investment can be promoted among the partners for enhancing supply to this niche market.

Further, in terms of productivity levels, there would be areas where India could learn from countries like Vietnam, Malaysia, Indonesia, etc. to enhance possibilities for investments in mutually acceptable fields. For instance, a comparison can be made by 2022, about the productivity levels in the manufacture of Samsung smartphones in factories located just outside the respective capitals of Vietnam and India.

India needs to approach its trade and commercial relations with ASEAN with an intention to assess, appreciate and accept some of the experience gained in those countries, especially in fields of interest to India. Most investments in ASEAN countries made through the eighties and the nineties have matured and are ready to enter the next level. So is probably India, which is now gearing up to become a manufacturing and start-up nation to meet domestic and international demand. Skills gathered in the information technology sector by India should be used freely to firm up ideas that can not only yield greater incomes across industry but also generate much needed employment and acquisition of skills, which we are yet to master.

The ASEAN countries have reaped the benefits of the capital investment and skill acquisition through the last two decades of the 20th century. India needs to lean on its own traditional strengths and those acquired in the modern era on the base of the information technology sector to prepare for the decades till 2050. When the results of these efforts lead to investments in new areas, increase in bilateral trade levels is bound to follow.

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ASEAN-India Centre at RIS



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About AIC

Considering the work of the ASEAN-India Eminent Persons Group (AIEPG), and its Report with recommendations for forging a closer partnership for peace, progress and shared prosperity, the Heads of the State/ Government of ASEAN and India at the ASEAN-India Commemorative Summit 2012, held at New Delhi on 19-20 December 2012, recommended the establishment of ASEAN-India Centre (AIC), which was formally inaugurated by the Hon'ble External Affairs Minister of the Government of India on 21 June 2013 at RIS. AIC serves as a resource centre for ASEAN Member States and India to fill the knowledge gaps that currently limit the opportunities for cooperation. The AIC is closely working with the Indo-Pacific Division of the Ministry of External Affairs (MEA), Government of India to undertake and disseminate evidence based policy research and provide policy recommendations.

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