

## **Strengthening ASEAN-India Economic Relations: The Necessary Steps**

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At the outset, I wish to thank Prof Suthiphand and all his colleagues in the Chula Global Network and Indian Embassy in Bangkok for making this event a reality. RIS has had a long and an extremely fruitful relationship with Dr Suthiphand and I see this event as the beginning of a more intensive phase of collaboration between our institutions.

India's Free Trade Agreement with ASEAN marked a major step in the evolution of the country's engagement with the global economy. Its engagement with ASEAN marked a complete departure from its erstwhile position regarding bilateral and regional trade agreements. Until its engagement with the ASEAN in 2003, India was almost unequivocally wedded to the multilateral trading system. The only aberrations in India's position were the bilateral deals that it was concluded with its immediate neighbours in the South Asian region. India's preference for the multilateral trading system was aptly reflected in a "Discussion Paper" on regional trading arrangements (RTAs) that it had tabled in the early days of the Doha negotiations. In this paper, India argued that "the multilateral framework for international trade under the WTO rule based system needs to be strengthened by addressing issues of concern emerging on account of formation of such a large number of RTAs including their impact on development". These views regarding RTAs, clearly those of an outlier, changed quite dramatically with India's engagement with the ASEAN. In the period since, India has aggressively pushed for concluding FTAs/PTAs with its major partner countries. Not only has it reached out to most of the East Asian Summit members, it has actively engaged with several members of the ASEAN to deepen and widen its economic engagement to conclude comprehensive economic partnership agreements. Besides, India is also negotiating a far-reaching trade and investment agreement with the European Union.

The FTA with ASEAN is significant especially in view of the fact that the Agreement has emerged as the corner-stone of India's "look east" policy. The India-ASEAN FTA negotiations were initiated as a part of the Framework Agreement on Comprehensive Economic Cooperation between India and the ASEAN. The Framework Agreement set out the roadmap for deepening economic cooperation between the two sides through the establishment of an India-ASEAN Regional Trade and Investment Area (RTIA). The RTIA was to be realised through progressive elimination of tariffs and non-tariff barriers in

substantially all trade in goods and by progressive liberalisation of trade in services with substantial sectoral coverage. At the same time, the partners agreed to establish a liberal and competitive investment regime that facilitates and promotes investment within the India-ASEAN RTIA. The negotiations were initiated with rather ambitious targets: the deal on trade in goods was scheduled to conclude by June 2005, while the services negotiations, which were to be initiated immediately after the conclusion of the agreement on goods, were to be concluded by 2007.

The process of negotiating an FTA in goods that took nearly six years to complete, justifiably brings to the fore the crucial question about its outcome and the prospects it holds for trade between the two sides. The FTA, when fully functional by 2016, would eliminate tariffs, in a phased manner, on 80 per cent of the items traded between the two sides. Import tariffs will not be eliminated for 10 per cent of sensitive items, while the tariffs on the remaining 10 per cent of the items would be brought down to 5 per cent. In the third category of products, the reductions will be completed by 2019. This tariff reduction plan is expected to provide a fillip to India's merchandise exports to ASEAN region, which has been stagnating around 11 per cent of its total exports during the past couple of years.

It must be said in this context, that the level of ASEAN-India trade hardly justifies the long standing economic relations that exists between the two partners. While at the turn of the century, ASEAN absorbed 6.5% of India's total exports, after nearly a decade of intense trade policy dialogue mostly centring on the FTA, this share had barely crossed double-digits.

One of the problems that can clearly be seen in the ASEAN-India trade relations is the narrowness of the product basket on both sides. At the same time, the major products in terms of value (on both sides) have remained largely unchanged over the past few years. There is, thus, no an gain saying that the only way in which ASEAN-India trade can attain the desired buoyancy is through a diversification of the trade basket. Over the past several years, petroleum and its products have been the single most important item in the exports of both ASEAN members taken as a whole and India. More recently, electrical and non-electrical machinery have gained prominence in India's imports from the ASEAN region, which portends to a shift towards non-conventional items. India would have to seriously consider ways in which it could diversify its exports to its partners in the East, in particular, by joining the production networks that have so successfully provided dynamism to the region as a whole.

One may argue that the conclusion of its FTA with ASEAN would not result in the realisation of all the potential gains for India, unless the country does the necessary homework to exploit the markets in one of the fastest growing regions in the world. It needs to be recognised that substantial reduction or even elimination of import tariffs does not automatically ensure larger market access since “behind the border measures” are becoming ever so important. These measures include various forms of standards, the more prominent ones being the technical barriers to trade and food safety (sanitary and phytosanitary) measures. In order to maximise the gains from the FTA, ASEAN and India would have to find mutually agreeable solutions to address the issue of standards, including through their mutual recognition. At the same time, the two partners would have to consider taking facilitation measures that would help in reducing the cost of doing business.

In today's world, economic relations cannot be strengthened without adequate focus being given to trade in services and investment. Over the past two years, ASEAN and India have tried to engage for an early resolution of the issues that would help move the negotiations on services and investment onto the fast track. An early conclusion of agreements in both these areas could provide the wherewithal for getting the trade in goods off the ground.

Looking further ahead, the real benefits of the closer economic cooperation between ASEAN and India will only arise if the Governments on the two sides and the industry associations are able to move proactively in order to seek opportunities in these markets. In the first instance, it would make eminent sense for the Governments to get into a “project mode” so as to identify the sectors in which the domestic stakeholders, including those in the private sector, can take advantage of the FTA. The benefits may be there for the taking!