



ASEAN India FTA: ASEAN Perspectives*

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Content

- ” Introduction: - Motivation & Objective of Paper;
- ” Salient Features of ASEAN-India Trade;
- ” Key Elements in AIFTA;
- ” Model, Data and Method;
- ” Estimation Results;
- ” Conclusion



Introduction

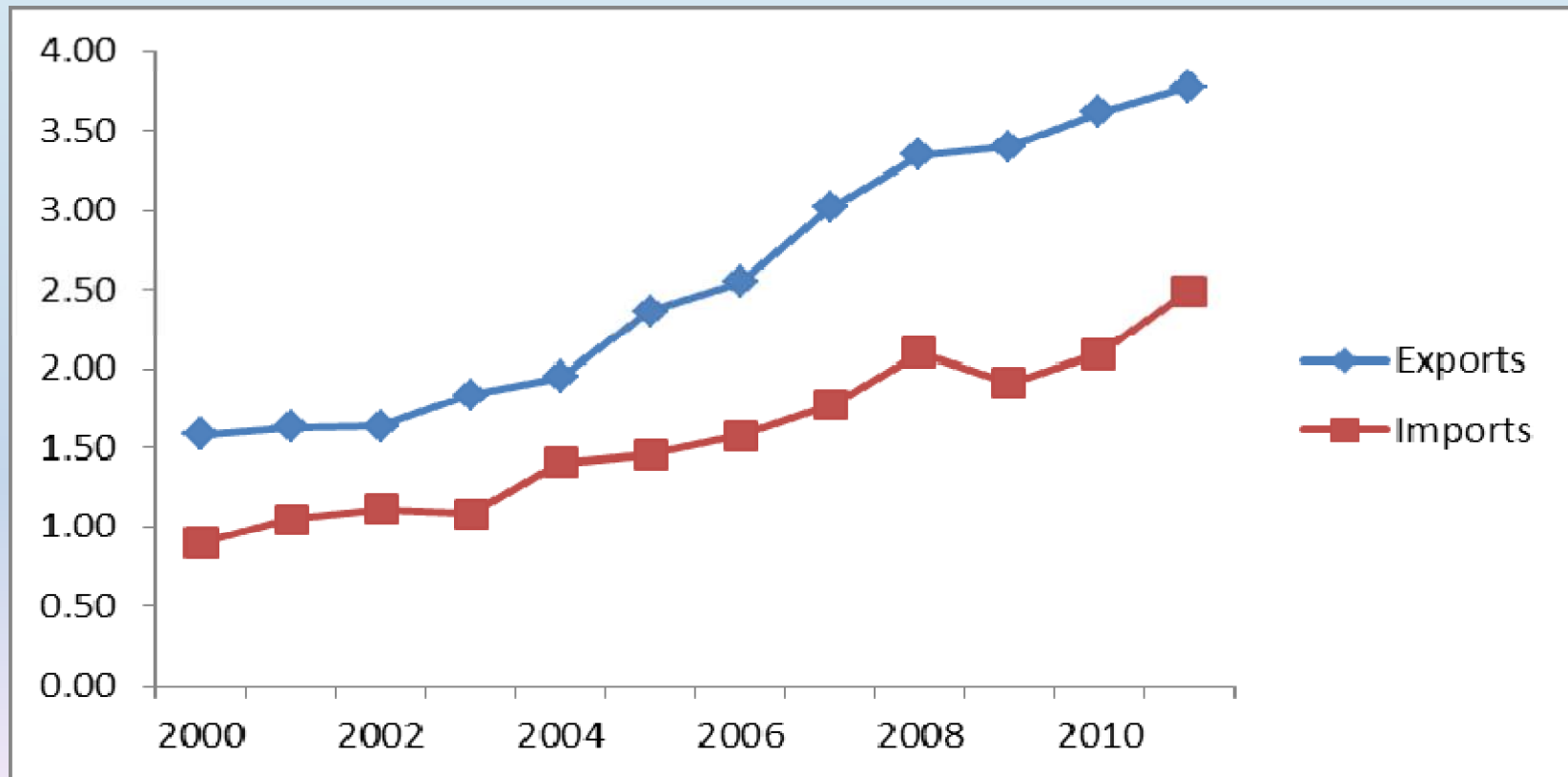
- “ Numerous initiatives for economic cooperation in ASEAN, including AFTA and the AEC;
- “ Intra-ASEAN trade has progressively increased from approximately 19% in 1993 to 25% in 2010.
- “ Despite growth in intra-regional trade, ASEAN's trade is still dominated by trade partners that are from outside the region;
- “ EU/Japan/USA - 49% and 29% (1998 and 2010)
- “ The increasing importance of China 3.5% and 11.3% (1998 and 2010)

Introduction (cont'd)

- “ **Motivations for extra-ASEAN FTAs:** The importance of trade partners outside the region & to forge economic alliances. Serve as a **hub** of these ASEAN+1 agreements.
- “ Why India? India's share has holds potential for further increments with AIFTA in 2010 - the largest PTA that India has negotiated to date; numerous studies by Indian scholars;
- “ Significantly less scholarly work on ASEAN's perspectives compared to Indian scholars.
- “ **Objective :** Assess the impact of the AIFTA on ASEAN's exports in manufactured goods.
- “ **Focus** - Manufacturing sector as it reflects ASEAN's comparative advantage and it is expected that ASEAN will gain more from the tariff reduction in this sector (Indian tariffs > ASEAN's)

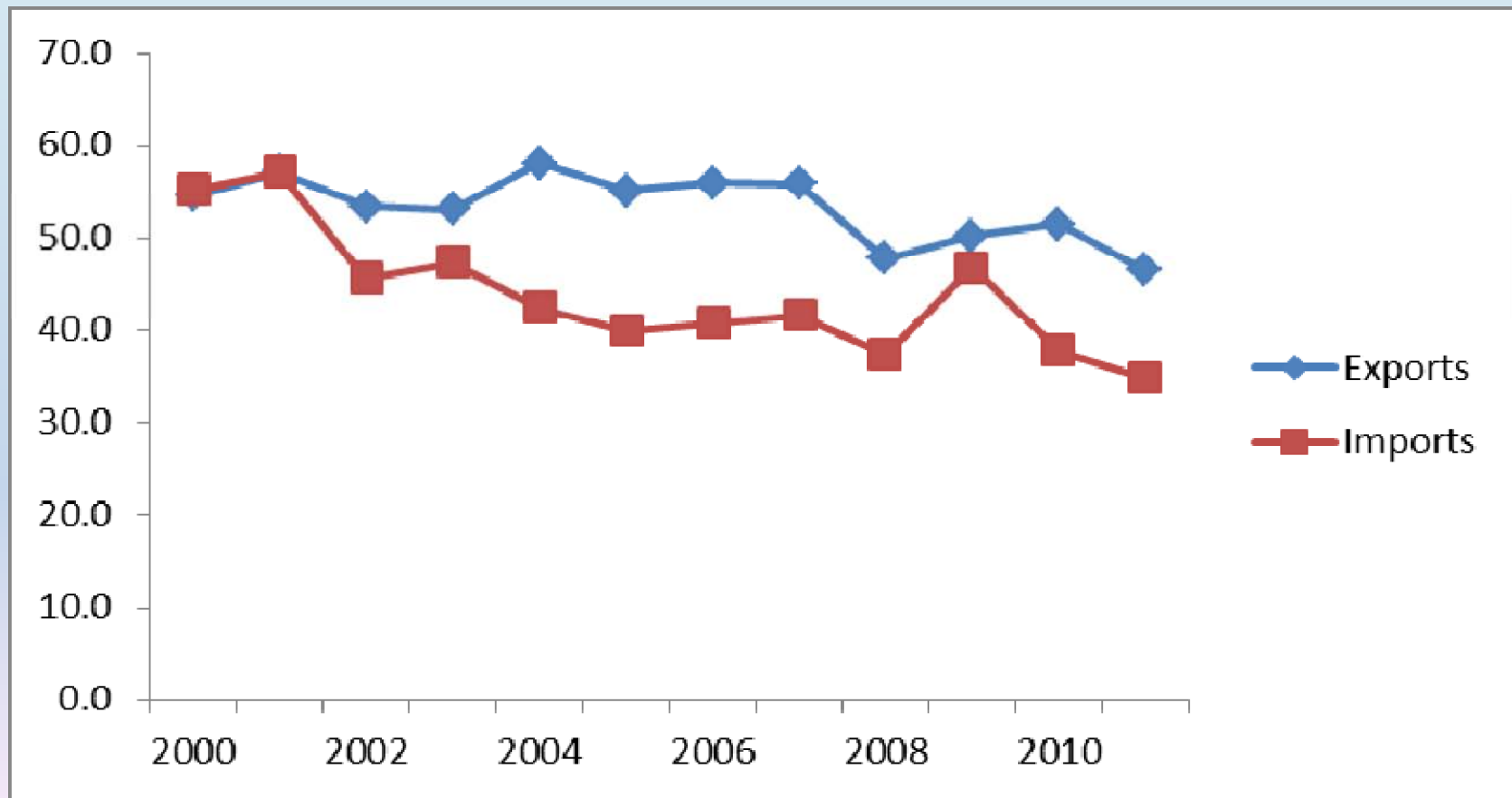
Key Features of ASEAN-India Trade

Figure 1. Share of ASEAN-5 Exports and Imports with India to Total Trade



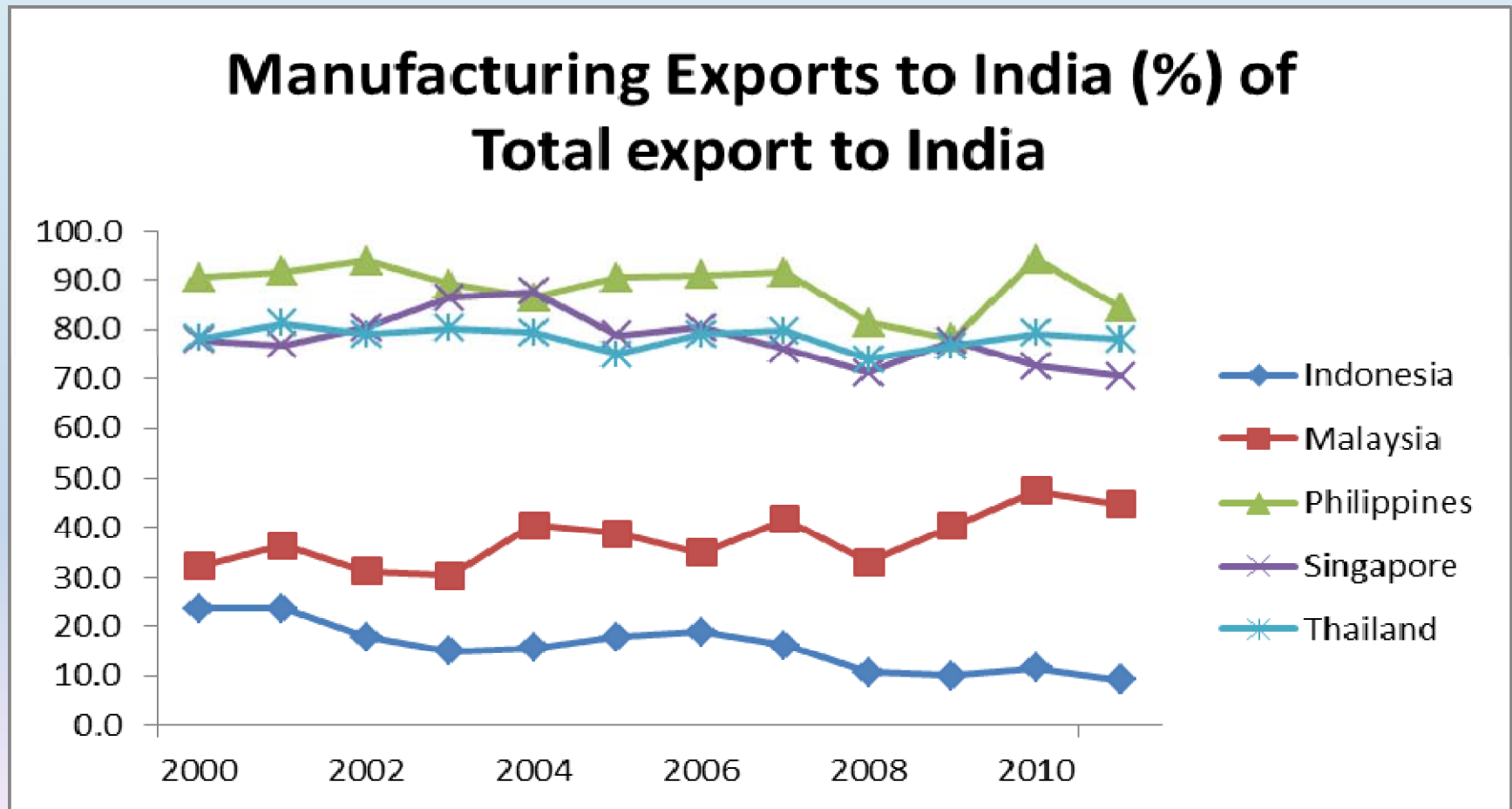
Key Features of ASEAN- India Trade (cont'd)

Figure 2. Share of exports and imports of manufactured goods in total exports and imports of the ASEAN-5 with India



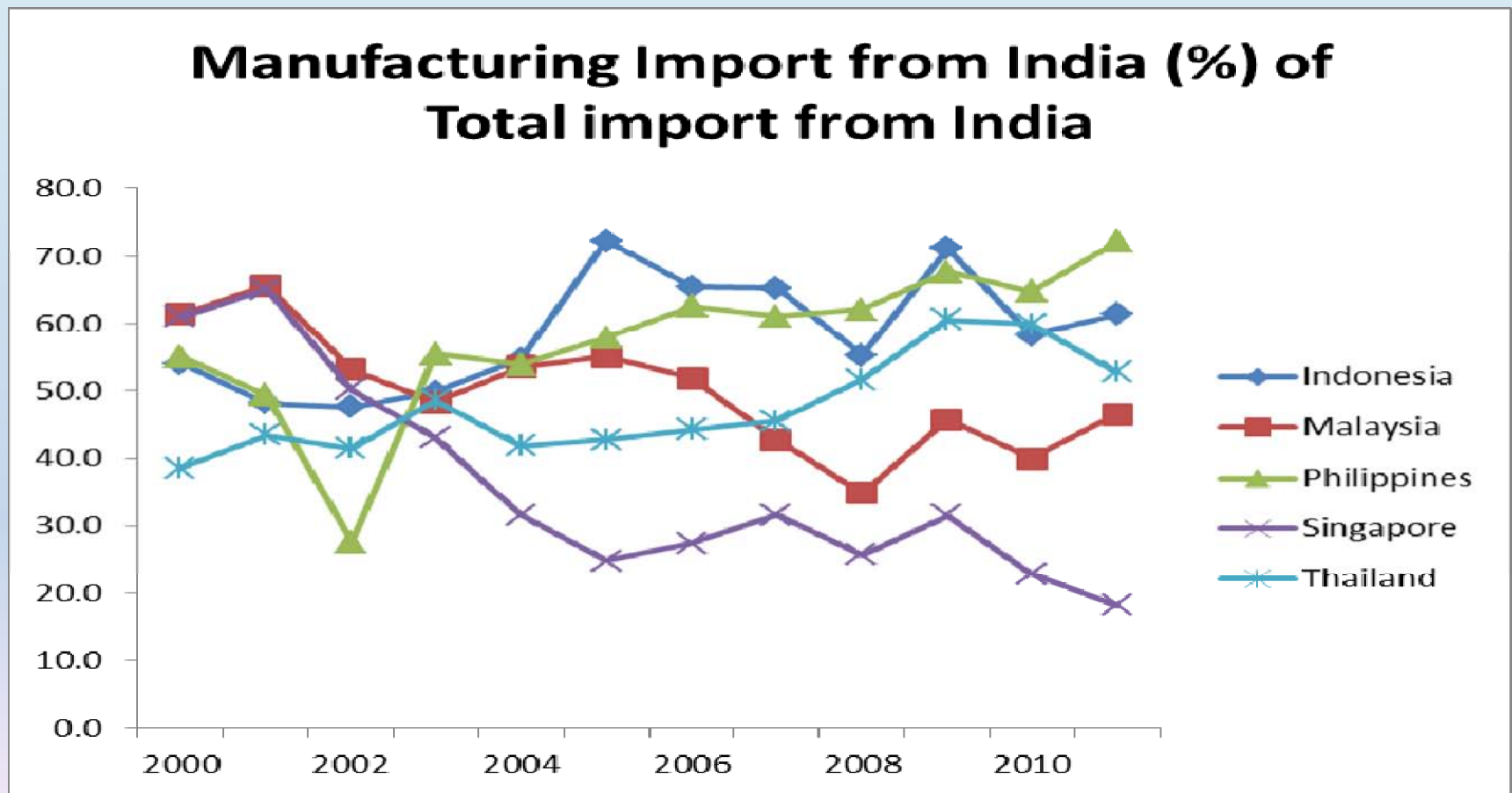
Key Features of ASEAN- India Trade (cont'd)

Figure 3. Share of manufacturing exports as a percentage of total exports to India



Key Features of ASEAN- India Trade (cont'd)

Figure 4. Share of manufacturing imports as a percentage of total imports from India



ASEAN-INDIA FTA

- “ Merchandise trade, services and investment are key areas for promoting closer ASEAN-India economic cooperation & focus of the Framework Agreement on Comprehensive Economic Cooperation (CECA) in 2003
- “ ASEAN-India FTA (AIFTA) was finally inked in 2009. CECA currently consist of a Trade in Goods Agreement (TIGA) - effective in January 01, 2010.
- “ One of the world's largest trade blocs and India's largest preferential trading arrangements thus far (Harilal 2010).
- “ Tariff liberalization in AITIGA is divided into five groups of products, summarized in Table 1.



Table 1. Proportion of Tariff Lines under Different Categories

Country	Categories of Products								
	EL	NT-1	NT-2	SP	ST	HSL-A	HSL-B	HSL-C	Total
India	10.7	63.9	10.3	0.3	14.8	Nil	Nil	Nil	100.0
Brunei	12.8	68.6	11.3	Nil	7.4	Nil	Nil	Nil	100.0
Cambodia	2.0	80.4	4.1	Nil	13.2	0.2	Nil	Nil	100.0
Indonesia	7.6	41.8	4.7	Nil	39.5	Nil	0.1	6.3	100.0
Lao PDR	2.8	69.5	8.6	Nil	19.2	Nil	Nil	Nil	100.0
Malaysia	9.9	59.2	14.6	Nil	15.1	Nil	0.3	0.9	100.0
Myanmar	14.1	64.4	7.5	Nil	14.0	Nil	Nil	Nil	100.0
Philippines	13.0	58.9	17.0	Nil	6.8	Nil	Nil	Nil	100.0
Vietnam	18.3	60.3	8.9	Nil	7.0	0.4	1.2	4.0	100.0
Thailand	12.2	67.0	8.9	Nil	11.7	0.2	Nil	Nil	100.0



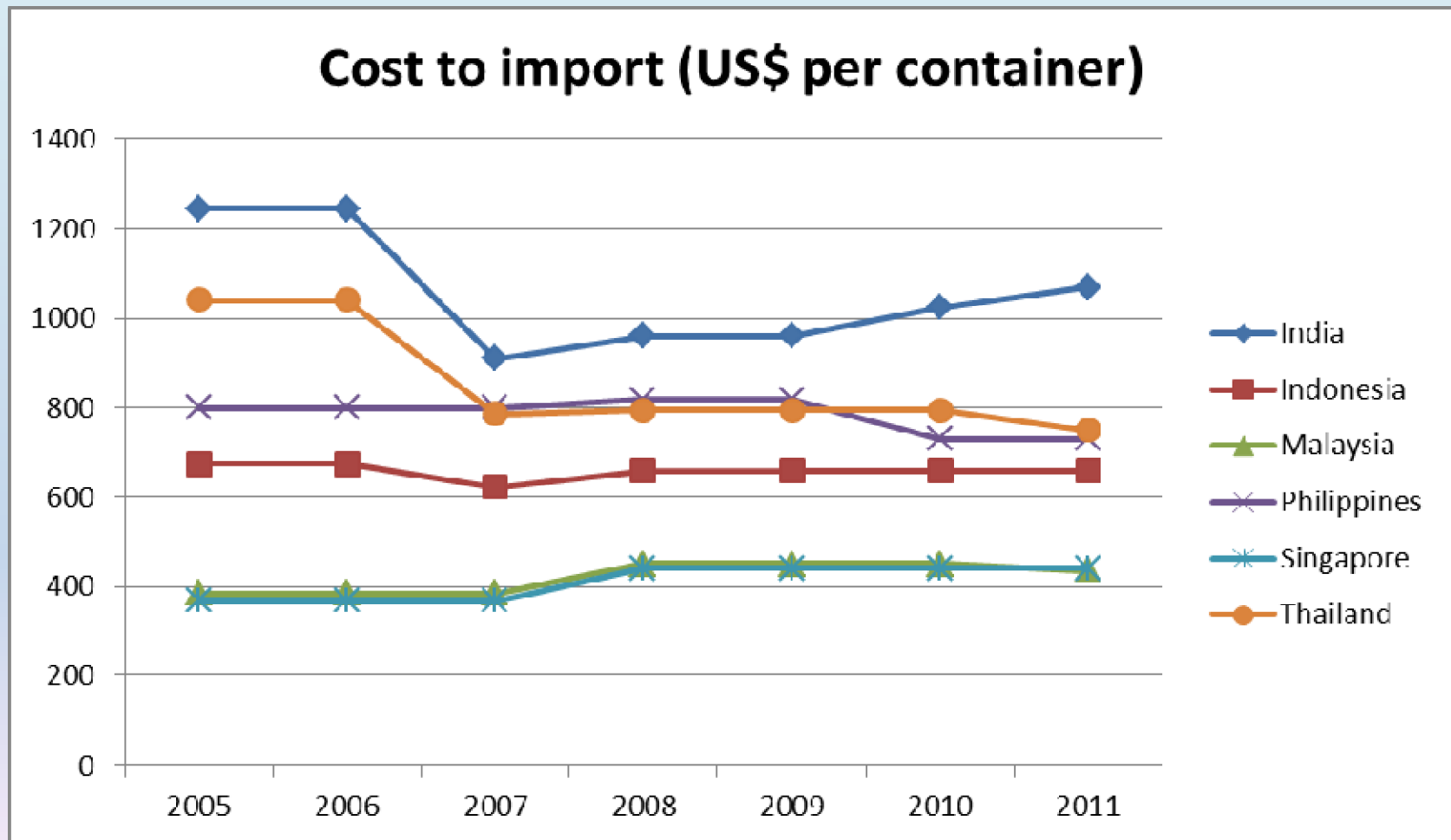
ASEAN-INDIA FTA (cont'd)

- “ Given that India’s tariffs are relatively higher than the tariffs of ASEAN economies, the liberalization of tariffs under AITIGA is expected to benefit ASEAN more than India;
- “ e.g. the average reduction in non-agricultural products for Normal Track-1 and 2 amount to 1.8% and 2.5% respectively from 2007 to 2010;
- “ Automobiles have the largest tariff reduction, dropping from an average MFN tariff rate of 17% in 2007 to 9.1% in 2010 and zero by 2013 for products in NT-1.

ASEAN-INDIA FTA (cont'd)

- “ However, trade in manufactured goods in the ASEAN economies is facilitated by the **regional production networks** of the multinationals (MNCs).
- “ Unclear if India's scheduled tariff reduction will lead to significant increases in ASEAN's exports to India as ASEAN's trade is dominated by trade between the affiliates of these MNCs.
- “ India's manufacturing sector is not an important part of this region's production network.
- “ Trade in manufactured goods between ASEAN and India, is dependent on whether ATIGA will attract more foreign direct investment (FDI) into India - then it may possibly integrate into the MNCs' production network.
- “ Other factors that can influence ASEAN's exports of manufactured goods into India such as **trade costs**.

Figure 5. Cost to Import in India and the ASEAN-5





- “ While tariff liberalization is important for increasing trade between countries, the **relative importance of other contributory factors** such as trade costs & the cost of importing needs to be considered as well.
- “ This paper thus proposes to use an augmented gravity model to ascertain the relative importance of tariff liberalization under AITIGA to other factors that can influence the ASEAN-5 exports to India.
- “ The model, data and estimation method is explained in the following section.

Model, Data and Estimation

$$\begin{aligned} \ln X_{i,India,t} = & \alpha + \beta_1 \ln GDP_{i,t} + \beta_2 \ln GDP_{India,t} + \beta_3 \ln \text{Distance}_{i,India,t} \\ & + \beta_4 \text{colony} + \beta_5 \text{Tariff}_{i,t} + \beta_6 \ln \text{Mcost}_{India,t} \\ & + \beta_7 \text{REER}_{i,t} + \gamma_1 \ln \text{FDI}_{i,(t-1)} + \gamma_2 \ln \text{FDI}_{India,(t-1)} + \varepsilon_{i,India,t} \end{aligned}$$

$X_{i,India,t}$ denotes the real exports of manufacturing goods from the i th ASEAN country to India in year t .

Model, Data and Estimation (cont'd)

Variable	Expected Signs	Notes
GDP	1 and 2 > 0	<ul style="list-style-type: none"> - Higher production capacity (ASEAN) - Higher consumption power, market size (India)
Distance	3 < 0	<ul style="list-style-type: none"> - Trade costs - risks dimension in trade
Colony	4 > 0	<ul style="list-style-type: none"> - Cultural distance, mitigates uncertainties
Tariff	5 < 0	<ul style="list-style-type: none"> - Tariff barriers
India's Import Cost (Mcost)	6 < 0	<ul style="list-style-type: none"> - Non-tariff barriers
REER	7 < 0	<ul style="list-style-type: none"> - Competitive indicator
Lagged FDI ASEAN	1 < 0	<ul style="list-style-type: none"> - Within production network increases intra-regional trade, divert exports to India
Lagged FDI India	1 (Ambiguous)	<ul style="list-style-type: none"> - For example, it depends on the nature of FDI, whether it is market-seeking or efficiency seeking.



del, Data and Estimation (cont'd)

- “ The Hausmann test is insignificant = errors are not correlated with the regressors = RE model. BUT the Breusch-Pagan Lagrange Multiplier (LM) test shows no significant differences in variances across countries = **Pooled-OLS**.
- “ The Levin-Lu-Chu (LLC) test for panel unitroot confirms that the variables are generally stationary.
- “ The mean variance inflation factor (vif) test indicates non-severe multicollinearity problems in the model.
- “ To control for heteroskedasticity, the estimation is done using heteroskedasticity-robust standard errors.

5. Estimation Results

	Xi,india
InGDPi	1.442***
	(8.56)
InGDPj	1.209^
	(1.95)
InDistance	-3.646***
	(-13.15)
colony	1.251***
	(14.73)
Tariff	-0.00598**
	(-2.86)
InMcost	-1.308^
	(-1.94)
REER	-0.0102***
	(-5.03)
InFDI_{i,(t-1)}	-0.0574
	(-0.62)
InFDI_{India,(t-1)}	-0.302^
	(-1.81)
_cons	44.14***
	(6.22)

ation Results – Key Findings

- “ GDP & colonial history have positive impact on exports.
- “ Reduction in tariffs will only induce an increase in exports by less than 1 per cent.
- “ Trade cost (or distance) is the most important determinant (4 per cent).
- “ An increase in 1 per cent of India's import costs could offset the benefits gained from the 1 per cent expansion of the India's GDP.
- “ The FDI indicator is insignificant for ASEAN countries. Limited production network linkages with India.
- “ An increase in FDI inflows to India = trade diversion from the ASEAN countries . Import Substitution
- “ Improvement in ASEAN's competitiveness is important for penetrating the Indian market.

3. Conclusion

- “ Lowering tariff barriers will improve ASEAN’s exports to India, its impact is relatively smaller than the impact of other variables in the model.
- “ Reducing trade costs and the cost to import in India is another important factor to address, if the ASEAN-5 seeks to improve its exports to India.
- “ Trade facilitation measures in AITIGA - provisions lack specificity and hence they are difficult to monitor. Need to be more specific, set targets and monitor.
- “ The ASEAN-5 cannot afford to be complacent and need to improve the competitiveness of their exports.

6. Conclusion

- “ Equally important to finalise the service and investment agreements to enhance trade in goods.
- “ Complementarities can be tapped, based on ASEAN’s relative strength in manufacturing and India’s relative strength in services. e.g ASEAN’s in hardware production and India’s in software development and applications.
- “ Example, India’s software companies extend their operations in ASEAN. ASEAN companies cooperate with India’s firms to utilize India’s strength in outsourcing, design and research.
- “ A closer economic partnership between ASEAN and India therefore cannot rest on a goods agreement alone. Need to complete the services and investment agreement as well.



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TERIMA KASIH
THANK YOU