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India-ASEAN FTA

Gist of **RStv** **Debate**
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INTRODUCTION

India and the 10-member ASEAN have agreed to initiate a review of the bilateral free trade agreement (FTA) in goods to make it "more user-friendly, simple and trade facilitative". India is not happy about the fact that its trade deficit with ASEAN has widened significantly since the pact was implemented in January 2010. As per an assessment, the FTA has led to a 250 per cent increase in India's trade deficit with ASEAN nations.

BACKGROUND

- India-ASEAN FTA entered into force on January 1, 2010.
- The agreement paved the way for the creation of one of the world's largest free trade area market, creating opportunities for over 1.9 billion people in ASEAN and India with a combined GDP of US\$4.8 trillion.
- India-ASEAN FTA creates a more liberal, facilitative market access, and investment regime among the member countries.

EDITED EXCERPTS FROM THE DEBATE



How important are the ties between India and ASEAN?

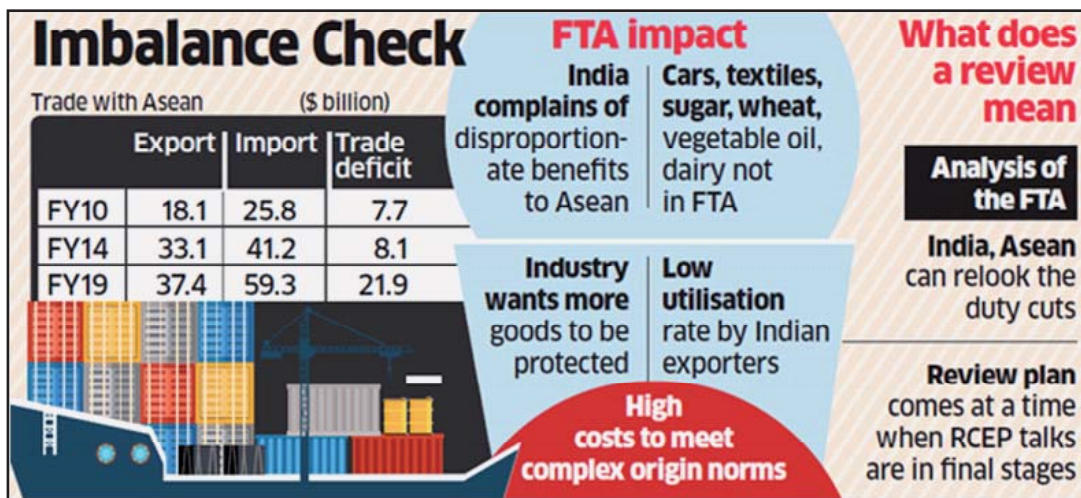
- **Strategic Importance:** In the context of the rapid rise of China in south-east Asia and beyond, India's Act East Policy is shaped around the ASEAN, and its centrality in the regional security architecture of the Indo-Pacific region is evident
- **Give North-East a boost:** It can help push development of Northeastern States and help the region act as "gateway for Southeast Asia" by providing connectivity between ASEAN and the Northeast.
- **Trade and Economy:** ASEAN is a major area for India as the value of trade is 80 plus billion.
- **Education:** This is an area where India and ASEAN should pay attention and leverage the potential of the India in this sector.

- Cultural Ties: The cultural ties between SE Asian nations and India have historical as well economic significance. The cultural connections must be rebuilt and renewed to create a feeling of oneness and closeness.



What are the major concerns for India in the existing FTA?

India has been successful in the past too in re-negotiating the FTAs with Mauritius, EU and others and now India is set to do away with the anti-India provisions in the India-ASEAN FTA.



Major Concerns

- Trade Deficit: Trade deficit is a huge concern for India not just with ASEAN but with all our major trading partners including China.
 - ▶ A NITI Aayog study says that India's trade deficit with ASEAN doubled to \$10 billion in 2017 from \$5 billion in 2011.
 - ▶ Imports from ASEAN increased disproportionately at the rate of 14% while Indian exports increased at 9-10%.
 - ▶ Trade deficit in 2019 is \$21-22 billion which has grown by 250% from previous year.
- Strict Regulatory Measures: Indian exporters have not been able to get access to the ASEAN markets because of the stringent regulatory measures. The high tariff and non-tariff barriers, bigger negative list of ASEAN countries, rules of origin requirement, etc. have made it tougher for Indian exporters to access ASEAN markets.
- No exit or Review Clause: India-ASEAN FTA doesn't provide any exit or review clause and hence the only way out for India to do away with the mistreatment in FTA is pushing ASEAN members to review the FTA pact.
- Discrimination towards Indian Services: India has given concessions to ASEAN goods and is asking for reciprocation on Indian services export which is being denied by ASEAN countries. Unfortunately, India is not satisfied with the treatment to services part of the agreement. The movement of IT professional from India is not free in ASEAN countries and India has been asking for the free movement of the professionals between the countries.



What are the problems India is facing that have widened the trade deficit between India and ASEAN? What are the possible solutions?

Problems

- Lack of capacity building Measures: Exporters in India are not trained to be made aware of the rules existing in the ASEAN and other countries with which India has FTAs. Therefore exporters are not aware of the regulatory measures and as a result they don't get access to ASEAN markets.
- Competitive Pricing: India is not able to face the competitive prices of the goods from the ASEAN nations. For Instance, the coconut from Malaysia is too cheaper than its counterpart in India.
- Poor Connectivity: The road and railway links in North east connecting India with Myanmar and Bangkok are poor and hence act as infrastructural bottlenecks in accessing the ASEAN markets.
- Stringent Regulatory Measures: The stringent tariff and non-tariff barriers have created the trade imbalance between India and ASEAN. FTAs always have both positive and negative lists. India's negative list is quite short (about 10% of whole gamut of goods and services) while some of ASEAN countries have bigger negative list.

Solutions:

- Greater Connectivity and Infrastructure: Theimproving connectivity through land, sea and air will cut down costs of movement of goods and services. Various such projects have already being taken by the government of India under Look East and Act East Policy.
 - ▶ Four-lane trilateral highway linking India (Manipur) with Mae Sot (Thailand) via Myanmar which will be expanded to Laos, Cambodia and Vietnam.This will allow India to export its produce through this link rather than become a net importer of cheap Chinese goods.
 - ▶ Sea connectivity from India to ASEAN will be helped by the Kaladan multi-modal transport project, which will link Kolkata to Sittwe port in Myanmar, as also Mizoram by the river and land route.
 - ▶ The augmentation of air connectivity to and from the region will help business ties with the ASEAN.
 - ▶ Connectivity is also being upgraded in the border areas for strategic purposes
- Negotiate the FTA with ASEAN and other nations: The re-negotiation of FTA with ASEAN will help in setting off the trade deficit and boost the economies. It should also help in leveraging the market benefits arising out of the ongoing US-China trade war.



What is the scope of trade between ASEAN and India? How do we fill the entire potential of trade-ties between India and ASEAN?

- **South East Asian Nations' Export Led Growth:**
 - ▶ The SE Asian nations have export-led economy and hence called butterfly economies.
 - ▶ ASEAN is one of India's biggest trading partners. India-ASEAN trade value is \$80 billion.
 - ▶ Lot of scope once the barriers are off and once re-negotiation of FTA takes place trade will pick up further and boost the India and ASEAN economy.
- **Mutual Areas of Interest**
 - ▶ Telecommunications
 - ▶ Services sector

- ▶ Financial technology
- ▶ connectivity
- ▶ start-ups and innovation
- ▶ Empowerment of youth
- ▶ women
- ▶ MSME development



Are there any special sectors or any core areas that we need to focus on going forward?

Services Part of the Agreement: The services part of the agreement was not favorable for India as ASEAN nations were not providing concessions or using normal tariffs to Indian services exports.

FTA agreement will have an Impact on negotiation in RCEP: The negotiations India is having with ASEAN will surely have an impact on the RCEP members as India is also going to negotiate with them. If India succeeds with ASEAN countries in getting a favorable review it will have a natural effect on RCEP members to adopt it too.



How much is the of US-China trade war playing on the minds in the nations in the region to have a relook at some of their pacts?

It is a bitter war fought between the US and China and its repercussions have been felt across the globe. India and ASEAN should focus on the regional cooperation and promote trade and investment. The US-China trade war is surely making some impressions on the minds of nation in the region but India must stand up to take advantage of the opportunity and balance the trade deficits.

CONCLUSION

Trade is one of the underpinning of any of our major relationships around the world. It is fundamental to India's Act East Policy. It is needed to strike a balance & come up at a fair solution where we find access to their markets in a fair fashion while giving access in a fair fashion to their goods & services. Also awareness among Indian exporters regarding the regulatory mechanism in ASEAN nations will work in favour of the nation.



PRACTICE QUESTION

- **What kind of changes can we expect if the India-ASEAN FTA pact is reviewed? How serious are the ASEAN countries going to be in reviewing this because the terms of the agreement favour the ASEAN countries at the moment?**
