

# Trends of India-ASEAN Trade Relations after Free Trade Agreement



**Dinesh Yadav**  
Research Scholar,  
Deptt.of Economics,  
University of Allahabad,  
Allahabad, U.P.

## Abstract

Regional Integration arrangements are the most popular phenomenon of the current global economic order and this feature is now an acknowledged future of the internal scene. Trade without barriers – free trade – is promoted by institutions like World Trade Organisation (WTO). In this background, as an emerging super power, India's Free Trade Agreements deserve special attention. In the aftermath of the economic crisis of 1991, the need for urgent economic reforms became imperative, to restore confidence in India and rebuild the economy. This was met by extensive reform measure, initiated by India. While the economy started to reshape itself, further steps were taken, one of which came to be known as the "Look East Policy" or LEP. With this policy, India set on path towards greater economic interaction with Eastern and Southeast Asian countries. The ASEAN-India Free Trade Agreement (FTA) has brought opportunities as well as challenges to the Indian industry since it came into force on 1 January 2010. The ASEAN-India Free Area emerged from a mutual interest of both parties to expand their economic ties in the Asia-Pacific region. There are no clear-cut estimates about the gains which will come to India especially in the sectors of agriculture, plantation and fisheries. However, some of the sectors which are labour intensive or unorganized will be facing bigger challenges. This article attempts to examine the impact of FTA where the tariff is either reduced or eliminated on some of the agricultural products like fisheries, tea and coffee, which have been projected as sensitive for India. After the implementation of FTA India's exports to ASEAN has increasing comparative to India's imports from ASEAN. After all the above discussion shows that Free trade agreement make a dramatic increase in some commodities.

The study is divided into three parts. The first part deals with the history of India-ASEAN relationship and highlights the features of India-ASEAN FTA. The second part does a case study of 10 commodities regard to FTA and likely impact on India. The final part gives a broad conclusion of the study.

**Keywords:** ASEAN, FTA, Look East Policy, Tariff.

## Introduction

In South East Asia, ASEAN (1967) is an oldest and dynamic regional group. ASEAN (Association of South East Asian Nations) is today a dynamic, rapidly growing regional bloc that strives to effectively manage both its diversity and growth. The Association of South East Asian nations (ASEAN) is a political and economic group of ten countries located in south east Asia, which was formed on 8<sup>th</sup> August 1967 by Indonesia, Malaysia, Philippines, Singapore and Thailand under the Bangkok declaration. The bloc grew when Brunei Darussalam become the sixth member on 8 January 1984, Just a week after gaining Independence on 1<sup>st</sup> January. On 28 July 1995, Vietnam becomes the seventh member, Laos and Myanmar joined two year later on 23 July 1997. Cambodia was to have joined together with Laos and Myanmar but was differed due to its internal political problem, the country, later joined on 31 April 1999, following the stabilization of its government.

India Undertook bold initiatives in its policies as a response to the evolving circumstances and the economic issues started moving from one periphery to the centre stage of its foreign policies. Before 1990, India was largely a socialistic planned economy characterized by the governments over protection of its state owned enterprises. But after that when economic reforms started in India Then India initiated "Look East" Policy to straightened the relationship with south East Asian nations. With India's "Look East" policy 1991, India's relation with ASEAN has expanded and diversified. There are a number of historical, cultural, political and

economic factors which have played a major role in closer relations between India and ASEAN.

After India become a Sectoral dialogue partner of ASEAN in 1992, India saw its trade with ASEAN increase relative to its trade with the rest of the world. The Year 1996 was a landmark year for Indo-ASEAN Cooperation. In July, at the fifth ASEAN Summit, India became simultaneously a dialogue partner as well as a member of the ARF at the summit in Jakarta, Indonesia. India and ASEAN have enormous prospects to advance cooperative political, economic, technological and military ties. The two sides had identified four broad sectors of cooperation during their sectoral dialogue partnership phase – Trade, Investment, Science and technology and tourism. To these two others have been added following India becoming a dialogue partner in July 1996 – Infrastructure and natural resources.

After six years of negotiations, the ASEAN-India FTA was signed on August 13, 2009, in Bangkok, Thailand. The agreement was only for trade-in-goods, and did not include software and information technology. Negotiations on an FTA with regards to the services and investment sectors started in October 2008 and were finalized on December 20, 2012.

The trade-in-goods FTA eliminated tariffs for about 4,000 products (including electronics, chemicals, machinery and textiles) between the regions. There are a total of 489 items excluded from the list of tariff concessions, and 590 items excluded from the list of tariff eliminations pertaining to farm products, automobiles, certain auto-parts, machinery, chemicals, and crude and textile products. ASEAN and India have agreed to allow between 7 percent and 9 percent of tariff lines or products to be excluded from tariff reduction commitments.

#### **Review of Literature**

There are few studies which attempt to analyze the implications of India ASEAN Free Trade Agreement for Indian economy. Among them the prominent studies include the following. Rajan and Sen (2004), in their paper, identified the FTAs as a popular means of liberalization and pointed out three features of the regional FTAs made in recent times. Firstly, services liberalization and trade facilitation has been included along with merchandise trade liberalization, thus, taking into account modern economic realities and thus, deeper economic integration of region. Two, FTAs are not restricted to just the immediate regions thus the term “regionalism” is somewhat of a misnomer. Three, initial membership in new FTAs is generally smaller because of the depth of coverage of the issues, in comparison to existing FTAs. The authors argue that although it is hard to definitively tell whether members in FTA are benefited substantially or not, but it can be certainly remarked that non-members will face trade and investment diversion and thus reduction in trade. Nagoor and Kumar (2009) compared the performance of the Indian tea sector with that of ASEAN countries and found that with a huge market for low priced tea and a large export price advantage enjoyed by Vietnam, India is in a disadvantageous position in AIFTAG.

Moreover, the chances of expanding exports of Indian tea to ASEAN markets seem limited. Veeramani and Gordhan (2011) analyzed the likely impact of AIFTAG on plantation commodities – coffee, tea and pepper – using the smart and gravity models. They find that the agreement may cause a significant increase in India's imports of plantation commodities from the ASEAN countries, which is mostly driven by trade creation rather than trade diversion. Chandran, Dr. Sarath (2018) looks in to the trade impact of India ASEAN Free Trade Agreement using an augmented Gravity model using a panel data framework. The results show the possibility of greater trade between India and ASEAN countries through RTA. Since the initial tariff levels are higher in India compared to ASEAN, ASEAN is likely to gain more in the short term. For India to exploit the trade potential with ASEAN the FTA should be operationalized in the services and investment domain. Chandran, B.P.S. (2018) The paper strongly reasons the possibility of greater trade between India and ASEAN countries through RTA. Since the initial tariff levels are higher in India compared to ASEAN, ASEAN is likely to gain more in the short term. For India to exploit the trade potential with ASEAN the FTA should be operationalized beyond trade in goods to services and investment agreements.

#### **What are Free Trade Agreements (FTA)?**

A Free Trade Agreement is an agreement between countries to reduce or eliminate barriers to trade. Trade barriers include tariff barriers like taxes and nontariff barriers like regulatory laws. Trade barriers include tariff barriers like taxes and nontariff barriers like regulatory laws. In Free Trade Agreement countries also agree on certain obligations that affect trade in goods and services, and protections for investors and intellectual property rights, among other topics.

#### **India- ASEAN Free Trade Agreement**

Recently, India and The Association of Southeast Asian Nations (ASEAN) completed 25 years of cooperation and partnership. With the initiation of economic reforms in India from 1991 onwards, the then government initiated the 'Look East Policy' which was particularly focused on Southeast Asia and East Asia. The successive governments rigorously implemented the policy. With the regime change in 2014, there was an upgrade of the 'Look East Policy' to 'Act East Policy'. The India-ASEAN relationship and ties go way back in history. Culturally, Southeast Asia has borrowed heavily from India and there were even Indian kings who went to Southeast Asian lands and established new dynasties there. With the end of the colonisation era, slowly the ties between India and ASEAN started to develop yet again. There was increasing contact between people and this led to a rise in exchanges and even economically. Look East Policy was a game-changer and after that, there has been no looking back and only growth of relations in between two regions. Negotiations on FTA with regards to the services and investment sectors started in October 2008 and were finalized on December 20, 2012. The ASEAN-India Free Trade Area (AIFTA) is a free trade area

consisting of the 10 member states of the Association of Southeast Asian Nations (ASEAN) and India. One of the major consequences of India's engagement with ASEAN has been the ASEAN-India Free Trade Agreement (AIFTA), which was seen as an essential step towards deeper economic integration. Its initial framework was signed on 8 October 2003 in Bali, Indonesia and the final agreement was signed on 13 August 2009, coming into effect from 1 January 2010.

**The AIFTA classifies the tariff lines into the following four broad heads (as in 2009)**

#### **Normal Track**

Wherein applied MFN rates would be reduced and subsequently eliminated, which is further subdivided into two tracks with different implementation periods, i.e. NT-1 till 2018 and NT-2 till 2021. Meat, edible fruits and nuts, cinnamon, wheat bran, spices, electrical equipment, etc. are a few examples of products included in this list.

#### **Sensitive Track**

For the first stage implementation, applied MFN rates above 5 per cent would be reduced to 5 per cent as per country specific reduction schedules. Products like organic chemicals, plastic products, rubber products, machinery and electrical machineries, textiles and footwear, etc. are included in this list.

#### **Special Products**

These are products on which India decided to reduce tariff rates at a more gradual pace than the normal or sensitive track. These include India's crude and refined palm oil, coffee, black tea and pepper.

#### **Exclusion List**

No reduction commitments have been made. However, the list would be subjected to an annual tariff review in order to improve market access.

#### **Timeline of India-ASEAN Trade Relations**

Year	Events
1990	India starts engaging with ASEAN, part of Look East Policy.
1992	India becomes a sectoral dialogue partner of ASEAN
1995	India becomes full dialogue partner of ASEAN
1996	India participates in ASEAN Regional Forum (ARF)
2002	1 <sup>st</sup> India-ASEAN Summit held in Phnom Penh
2003	India accedes to the Treaty of Amity and Cooperation (TAC). India-ASEAN Framework on Agreement on Comprehensive Economic Cooperation signed to lay the basis for an India-ASEAN free trade agreement (FTA)
2005	India joins East Asia Summit (EAS)
2010	India-ASEAN Trade in Goods Agreement enters into force
2012	India and ASEAN upgrade the relations to a strategic partnership
2014	India appoints first Indian ambassador to ASEAN
2015	India-ASEAN Trade in Services Agreement and India-ASEAN Investment Agreement enters into force
2018	India-ASEAN commemorative summit in New Delhi to celebrate 25 years of India and ASEAN relations

#### **Economic Perspective**

The Economic relation is a pillar on which the two region's partnership rests. In this context, with the enforcement of the 'Look East Policy' there were growing trade relations in goods and investments. After the India-ASEAN free trade agreement was created in 2003, trade relations boomed even further. In 2009, the Free Trade Agreement in Goods was signed and enacted in 2010. The ASEAN-India Free Trade Area (AIFTA) has been completed with the entry into force of the ASEAN-India Agreements on Trade in Service and Investments on 1 July 2015. With this, India will stand to gain as it has always asked for an FTA which will be more comprehensive and included services which has been India's stronger sector.

The ASEAN nations and India together consist one of the largest economic regions with a total population of about 1.8 billion. ASEAN is currently India's fourth largest trading partner, accounting for 10.2 percent of India's total trade. India, on the other hand, is ASEAN's 7<sup>th</sup> largest trading partner. India's

service-oriented economy perfectly complements the manufacturing-based economies of the ASEAN countries. Investment flows are quite remarkable both ways, with ASEAN accounting for approximately 12.5 percent of investment flows into India since 2000. Singapore is the primary hub for both inward and outward investments. Foreign direct investment (FDI) inflows into India from ASEAN between April 2000 and May 2016 were about US\$49.40 billion.

In order to enhance economic and strategic relations with the Southeast Asian countries, the Indian government has put in place a Project Development Fund to set up manufacturing hubs in Cambodia, Myanmar, Laos and Vietnam (CMLV) countries through separate Special Purpose Vehicles (SPVs).

#### **Commodity wise India's Trade with ASEAN**

Here is the analysis of 10 selected groups of commodities sorted by HS code. In this analysis there is taken of all 10 commodities export import data from pre free Trade agreement, during free trade agreement and post free trade agreement.

Table 01: India's Exports to ASEAN

Values in US\$ Million  
Sorted on HSCode

S.No.	HS Code	Commodity	Pre Free Trade Agreement		During Implementation of Free Trade Agreement		Post Free Trade Agreement	
			2004-05	2005-06	2009-10	2010-11	2015-16	2016-17
1.	01	Live Animals.	0.16	0.03	0.06	0.02	0	0
2.	02	Meat And Edible Meat Offal.	142.70	192.92	550.69	742.3	2,649.14	2,761.26
3.	03	Fish And Crustaceans, Molluscs And Other Aquatic Invertabrates.	95.86	97.43	208.43	289.23	1,088.95	1,667.26
4.	04	Dairy Produce; Birds' Eggs; Natural Honey; Edible Prod. Of Animal Origin, Not Elsewhere Spec. Or Included.	10.20	14.18	16.94	21.72	23.73	27.47
5.	05	Products Of Animal Origin, Not Elsewhere Specified Or Included.	1.38	0.61	6.16	8.18	24.47	27.63
6.	06	Live Trees And Other Plants; Bulbs; Roots And The Like; Cut Flowers And Ornamental Foliage.	0.76	0.96	1.41	1.21	4.15	4.89
7.	07	Edible Vegetables And Certain Roots And Tubers.	37.40	57.60	113.24	162.54	166.95	177.25
8.	08	Edible Fruit And Nuts; Peel Or Citrus Fruit Or Melons.	14.12	18.20	28.91	35.09	49.55	76.08
9.	09	Coffee, Tea, Mate And Spices.	47.79	50.23	164.05	202.56	510.62	657.88
10.	10	Cereals.	112.25	42.76	297.3	487.14	161.33	136.41

Source: <http://www.dgciskol.nic.in/> ministry of commerce

In the above table- 01 we can observed that the India's exports to ASEAN has risen after implementation of free trade agreement by commodity wise. In the level of export some commodity has taken highly increasing commodity, while some commodity getting less increasing after implementation of Free Trade Agreement. According to above table in the export of Live Animals and Cereals there is

decreasing Export, while meat, Fish and allied commodity, product of animal origin and coffee & tea has high increasing growth and dairy products, edible fruits and live trees has comparatively less growth. These commodities have taken high attention in the India's trade relationship with ASEAN.

**Table-02: India's Imports from ASEAN**Values in US\$ Million  
Sorted on HS Code

S.No.	HS Code	Commodity	Pre Free Trade Agreement		During Implementation of Free Trade Agreement		Post Free Trade Agreement	
			2004-05	2005-06	2009-10	2010-11	2015-16	2016-17
1.	01	Live Animals	0.01	0.00	0.13	0	0	0.01
2.	02	Meat And Edible Meat Offal	0.00	0.08	0.01	0.01	0.09	0.28
3.	03	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates	1.28	2.68	3.71	6.81	23.66	23.82
4.	04	Dairy Produce; Birds' Eggs; Natural Honey; Edible Prod. Of Animal Origin, Not Elsewhere Spec. Or Included	0.09	0.04	0.52	0.04	0.02	0.13
5.	05	Products Of Animal Origin, Not Elsewhere Specified Or Included	0.93	0.75	6.4	15.7	2.2	6.33
6.	06	Live Trees And Other Plants; Bulbs; Roots And The Like; Cut Flowers And Ornamental Foliage	0.38	0.55	1.37	1.82	7.12	6.51
7.	07	Edible Vegetables And Certain Roots And Tubers	178.58	254.10	896.46	578.21	836.13	812.37
8.	08	Edible Fruit And Nuts; Peel Or Citrus Fruit Or Melons	74.87	74.38	75.37	33.36	112.31	83.91
9.	09	Coffee, Tea, Mate And Spices	53.66	87.39	124.21	115.6	287.81	327.38
10.	10	Cereals	0.00	0.02	0.02	0.17	0.31	0.35

Source: <http://www.dgciskol.nic.in/> ministry of commerce

In the above table 02, it is clear that the trade relationship between India & ASEAN is being stronger day by day. India's Imports from ASEAN is also increasing, Fish, live trees, edible vegetables and coffee & tea commodities have high growth and Live animals, meat, dairy products and products of animal origin products and cereals has normal change means FTA does not affect on the import of these commodities. This type of effect is good for India's perspective and it will also help to improve the balance of trade of India with respect to ASEAN.

**Conclusion**

"India's engagement with ASEAN so far has been episodic. I think we need to step up engagement with the economically vibrant region. If India does not respond to ASEAN's overtures, say, in the area of trade, ASEAN can turn to a China or Japan or South Korea. So it is in India's interest to keep up ties with the group, ASEAN countries are likely to continue FTA negotiations with their major trading partners. To maximize the benefit and minimize the adverse effect from ASEAN should strengthen their cooperation in the formulation of a common trade and investment policy and strategies for the negotiation of the agreement. To maximize the benefit and minimize the adverse effects from liberalization of trade and investment under an FTA,

ASEAN must closely cooperate in making thorough assessment of the opportunity to export their goods and services and their supply side capacity. While ASEAN may gain more market access for their goods and services, the FTA will also require ASEAN to open their market to the FTA partner. In the negotiations for market access, all parties therefore need to know their own strength and competitiveness. This is the reason why some ASEAN members still maintain some of their goods in the sensitive list and ask for a longer time frame for liberalization of the market for those products, and maintain several conditions and limitations to national treatment and market access for sensitive service sectors. After the implementation of FTA India's exports to ASEAN has increasing comparative to India's imports from ASEAN. After all the above discussion shows that Free trade agreement make a dramatic increase in some commodities, it is also clear that the trade relationship between India and ASEAN become more stronger while India is not a member country of ASEAN.

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