



THE AFTERMATH OF ASEAN-INDIA FREE TRADE AGREEMENT (AIFTA) AND FUTURE PROSPECTS

Harsh Nandal

Research Scholar
Department of Economics
Maharshi Dayanand University
Rohtak, Haryana, INDIA

Abstract

The ASEAN-India Free Trade Agreement (AIFTA), since its inception in 2010, has led to significant rise in trade among India and other South-east Asian nations. While the share of trade is still dominated by the partners from other continents, India's share is rising consistently. ASEAN and India has been holding summits on annual basis since 2002 to enhance the economic, security and socio-cultural ties. ASEAN-India dialogue has led to the establishment of economic agreement between the nations and further establishment of security arrangements. India's Act East policy and Economic agreements, such as BIMSTEC-FTA and Mekong-Ganga Cooperation (MGC), and infrastructure projects, such as Mekong-Ganga Economic Corridor (MIEC) and The Kaladan Multimodal Transit Transport Project (KMTTP), can act as a catalyst in further enhancing the trade relations among ASEAN nations and India, but the increasing integration of China in trade among Asian countries and its strategic trade initiatives pose a challenge to India in maintaining its trade at sustainable levels. The paper analyzes the trends in trade in India in the backdrop of AIFTA and the future prospects regarding India and ASEAN relations.

Key words: AIFTA, Trade, Act East Policy, ASEAN, Exports, MIEC, KMTTP.

Introduction:

The ASEAN came into existence in 1968 with the objectives of enhanced economic growth, social and cultural development in the region. The bloc is comprised of 10 members- Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia, the first five being the founding members. The group is engaged in trade relations with many nations in Indo-pacific region and beyond. The need to forge economic alliances with the large countries and the importance of trade partners from outside the region has motivated ASEAN to sign several extra-regional trade agreements, such as China, Japan, South-Korea and India (Medalla and Mantaring ;2009).

The thrust for greater cooperation in Asia came in the backdrop of Asian Financial Crisis of 1997. The economies recognized the need for greater economic integration and cooperation to boost the growth. This led to the formulation of ASEAN+1 relationships. India under the “Look East Policy”, as a part of financial reforms, started engaging in strategic trade with the Asian economies.

ASEAN and India has been holding summits on annual basis since 2002 to enhance the economic, security and socio-cultural ties. In 2010, the ASEAN-India Trade in Goods Agreement popularly known as ASEAN- India Free Trade Agreement (AIFTA) came into force under which the ASEAN states and India have agreed to open the markets by progressively reducing and eliminating duties. The bloc also signed Trade in Services Agreement and the Investment Agreement with India in 2014. The objective was to enhance transparency, recognition, market access, national treatment and faster dispute settlement. The Investment Agreement deals with the fair and equitable treatment for investors.

The ASEAN-India Free Trade Agreement (AIFTA), since its inception in 2010, has led to significant rise in trade among India and other Southeast Asian nations. ASEAN’s population size is less than half of India but the global economic trade is more than five times. The cooperation between ASEAN and India has been extending to diverse fields. The two-way trade volume among ASEAN countries and India increased to almost \$60 billion in 2016. Meanwhile, Foreign Direct Investments (FDI) from India to ASEAN increased by 9.4 per cent from \$0.96 billion in 2015 to \$1.05 billion in 2016 (The Indian Express; 2018).

Methodology:

The study evaluates the trade agreement between ASEAN and India on the basis of secondary data and empirical observations available from different research papers and articles. A brief account of literature review is provided to make the research work stronger.

Literature Review:

India-ASEAN trade relations have been strengthened since 1991 under the purview of India’s ‘Look East Policy’. The trade dependence has increased over the period with evolving significant mutual gains. India’s trade intensity with ASEAN has been increased during 1995-2003. India’s import intensities with ASEAN were more than her export intensities (Madaan; 2004).

The trade performance of India with ASEAN especially the growth of India’s exports to ASEAN was better than with the rest of world during the post WTO period. India’s policy of

liberalization and openness has helped in strengthening India's trade ties with ASEAN (Ghuman and Madaan; 2009).

The time series analysis shows that liberalization in the prospective FTA could have a substantial effect in the goods and services markets as these markets are already relatively integrated (Lee and Liew; 2007).

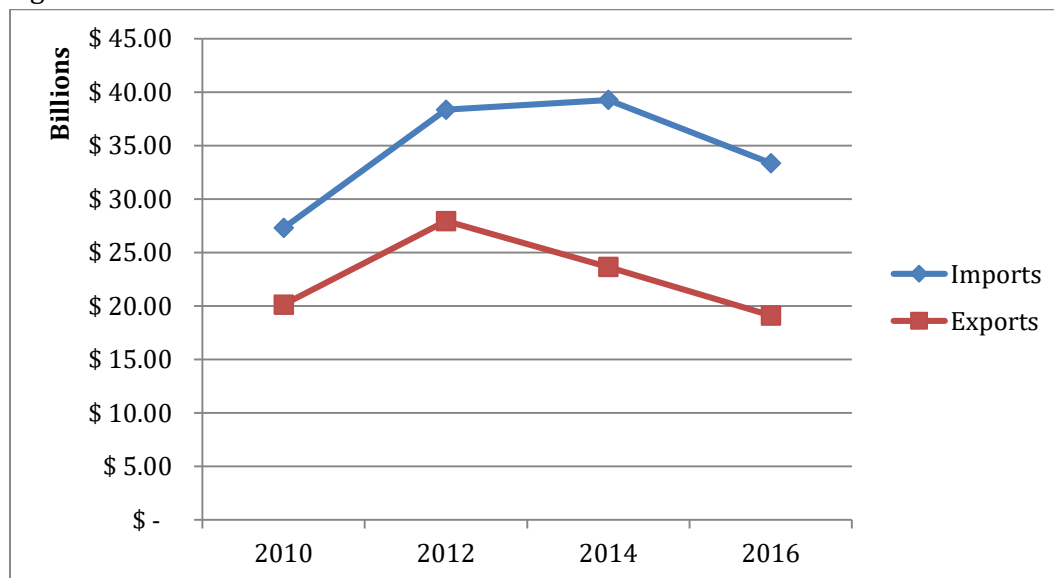
There exists tremendous scope for expansion of economic cooperation among India and the five major countries of the ASEAN in the sphere of shipping, tourism and banking, especially in the area of investment cooperation involving export of Indian technology, consultancy and management and banking services (Pradnya; 2009).

The Aftermath:

The share of India in ASEAN's trade is relatively small but has witnessed an upward trend. India's imports as well as exports with the ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand) saw a sharp rise during the period 2010-2012 (Figure-I). Though imports to India from ASEAN-5 were majorly dominated by the manufactured goods (Yean and Jia Yi; 2017).

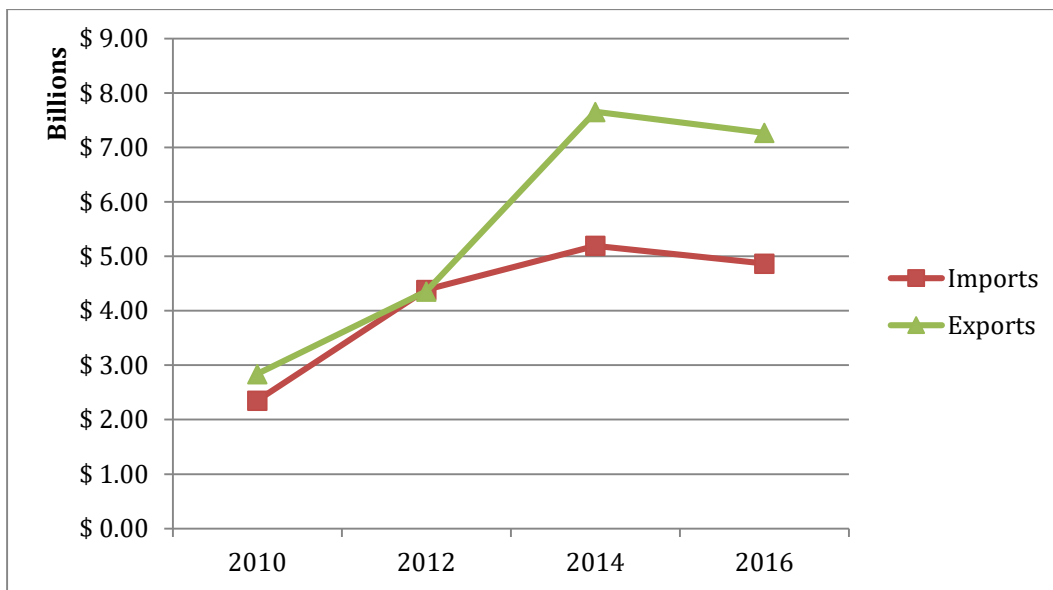
The exports and imports of India with the rest of the economies in ASEAN also saw an upward trend but for a longer duration, as evident from Figure-I.

Figure-I



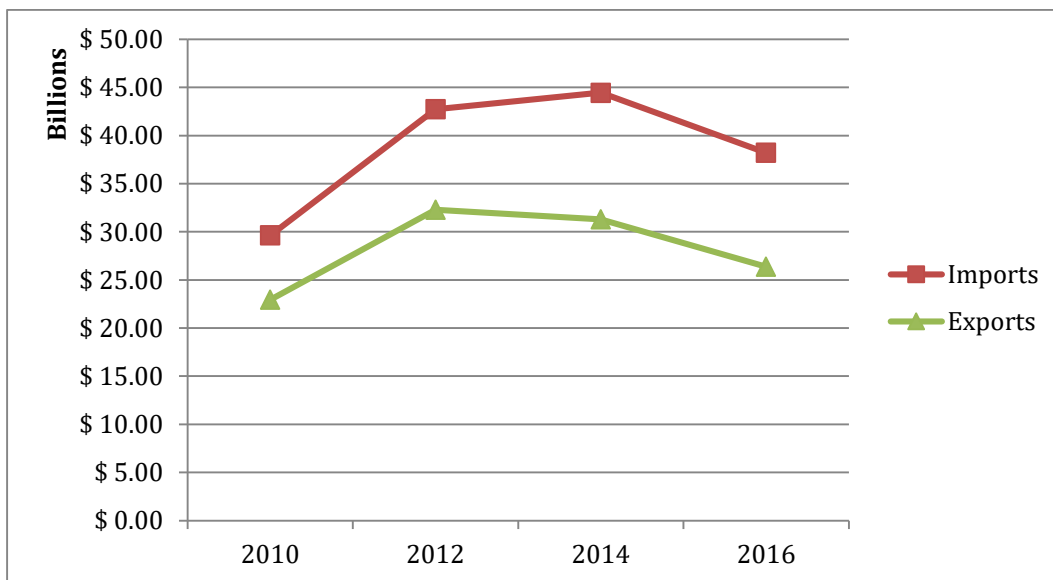
Source: UNCOMTRADE

(a) India’s imports and exports with ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand)



Source: UNCOMTRADE

(b) India’s imports and exports with Brunei, Vietnam, Laos, Myanmar and Cambodia



Source: UNCOMTRADE

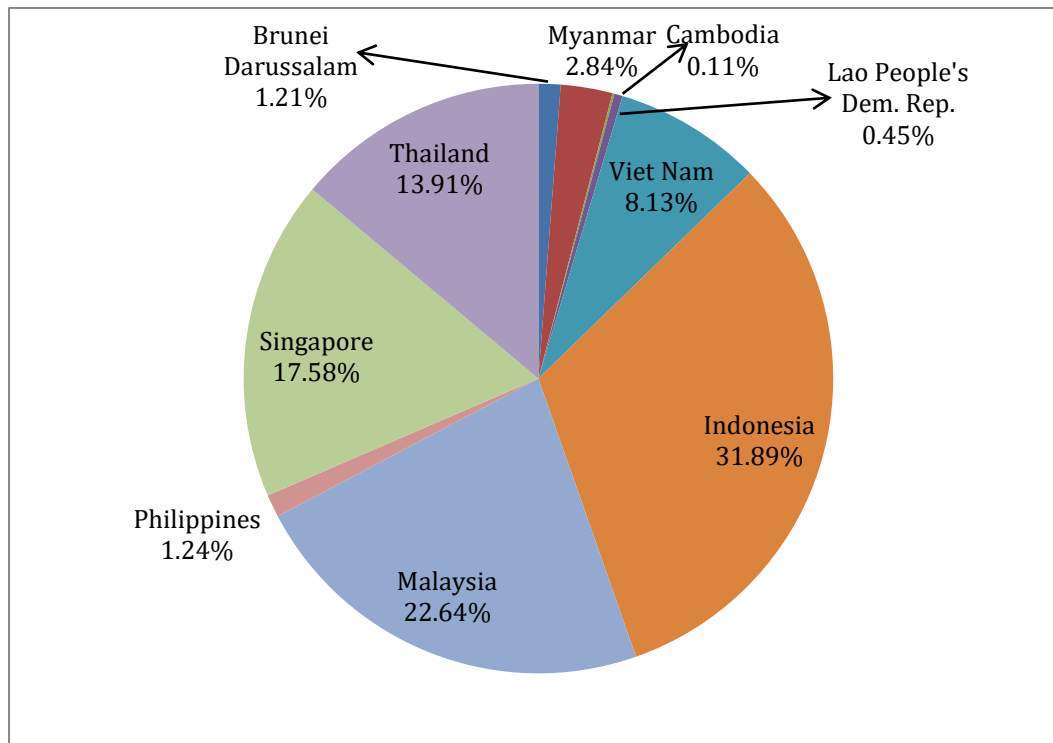
(c) India’s imports and exports with ASEAN

The exports and imports of goods have fallen progressively during the recent past, as can be seen in Figure-I. India’s trade with all the economies in ASEAN declined progressively following declined competitiveness of the region. Also the increasing competitiveness from other countries in the region like China played a significant role.

The ASEAN bloc as a whole is a significant trading partner for India. In the years immediately after the implementation of trade agreement, the bloc imported almost 11.5% of India's exports, while India imported almost 9% of its imports from ASEAN (Sikdar and Nag; 2017).

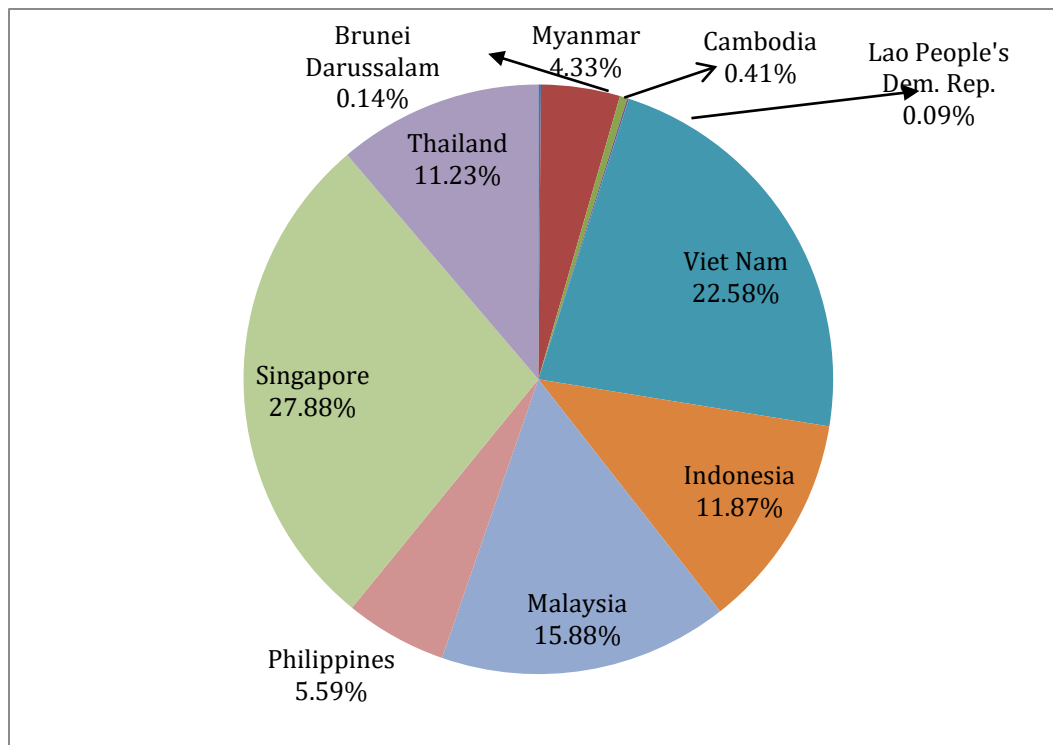
India's trade even with the small countries in the bloc have seen a significant rise. Figure-II provides a snapshot of the trade scenario with the bloc, country wise, in 2016.

Figure-II



Source: UNCOMTRADE

(a) Share(%) of Individual country in India's imports with ASEAN in 2016



Source: UNCOMTRADE

(b) Share(%) of Individual country in India's exports with ASEAN in 2016

ASEAN-India dialogue has led to the establishment of economic agreement between the nations and further establishment of security arrangements. But still the important pillar of political cooperation is missing from the equation, which may be a risky situation at international platform. The international political scenario brings urgency to propel this much needed pillar to achieve the full potential of the partnership (Rocher; 2017).

Future Prospects:

India's Look East Policy (LEP), which came in the backdrop of economic reforms that India undertook in 1991, was focused on promoting economic integration among India and South Asia. LEP became an essential strategic tool for India to contain the influence of rising power of China. While China was engaged in extensive strategic trade and economic ties with ASEAN nations, India focused in establishing economic and commercial ties, increased strategic and security cooperation, and strengthened cultural links (Malik; 2012).

Government of India unveiled new Act East Policy to cater to the needs of changing global scenario with the objective of strengthening ties with the Asian nations in all respects. Economic agreements, such as The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)-FTA Agreement and Mekong-Ganga Cooperation (MGC), and infrastructure projects, such as Mekong-Ganga Economic Corridor (MIEC) and The Kaladan Multimodal Transit Transport Project (KMTTP), could play a dominant role in strengthening the economic integration of India in the region in future.

The BIMSTEC, an international organization involving a group of economies in South Asia and Southeast Asia, could act as an excellent opportunity to build a bridge between SAARC and ASEAN and has great positive implications for the development of India's Northeast region (Sermcheep, Srisangnam and Thamanovanish; 2017).

The Mekong-Ganga Cooperation came into existence in 2000 with the aim to enhance future trade and investment cooperation among the people inhabiting these two major river basins – Mekong and Ganga. The cooperation covers four spheres – tourism, education, culture and transportation linkage. The Mekong-India Economic corridor, as a part of the MGC, could have a significant impact on trade enhancement among the economies and will also encourage tourism in the region. Linkage with the deep sea port, special economic zones and power plants provides opportunity to the firms in India to have enhanced access to ASEAN.

The Kaladan Multimodal Transit Transport Project (KMTTP), focused on connecting Myanmar-Northeast India-Rest of India, provides an answer to the weak connectivity between Northeast India and Myanmar and between northeast India and rest of India. Although the progress of the connectivity initiative has been very slow because of the geographical setting, huge development gaps, prevalence of conflict-ridden atmosphere along the borders (Chirathivat and Masali; 2017).

The project aims to connect Sittwe port in Myanmar to Indian port and road and inland waterways links from Sittwe to India's north-eastern region (De and Ray; 2013). Substantive improvement in physical connectivity in the region is essential for enhancing the ASEAN-India economic integration.

Some members of the ASEAN have seen a huge rise in trade volumes with China which in turn has increased their dependency on one country for trade. While some others members are engaged in territorial disputes with China in the South China Sea. Both these reasons compel the members to increase their foreign policy options (The Indian Express; 2018). As a result India-ASEAN dialogue mechanisms saw a tremendous increase in the recent past.

Tourism among India and ASEAN members has not been explored yet up to its potential and can act as platform to enhance the integration among the countries, India's Act East Policy provides to explore this sphere.

ASEAN-India relation has been a reality in the economic realm but not in political one yet. India is perceived as a benevolent power by Southeast Asian countries and it shares diplomatic practices with ASEAN nations such as power-balancing pragmatism and non-interference in domestic affairs (Rocher; 2017). This could help in strengthening the political cooperation and in establishment of the missing political link across nations.

The main objective of the AIFTA was to enhance the trade in goods among the members, but the commodities trade has not been explored completely yet. There still exists a huge scope in commodities trade among the members. Table-I provides the list of potential export and import commodities that can be explored to enhance the trade among the members.

Table-I

(a) POTENTIAL EXPORT COMMODITIES FROM INDIA TO ASEAN

Country	Commodities
ASEAN	Manmade staple fibres, Tools, implements, cutlery, etc of base metal, special woven or tufted fabric, lace, tapestry etc, tobacco and manufactured tobacco substitutes, vegetables plaiting materials, vegetables products
Brunei	Silk, cotton, residues, wastes of food industry, animal fodder, optical, photo, technical, medical, etc apparatus, special woven or tufted fabric, lace, tapestry, etc, tobacco and manufactured tobacco substitutes, explosive, pyrotechnics, matches, pyrophorics, etc., tools, implements, cutlery, etc of base metal
Cambodia	Salt, sulphur, earth, stone, plaster, lime and cement, stone, plaster, cement, asbestos, mica, etc articles, special woven or tufted fabric, lace, tapestry, etc., mineral fuels, oils, distillation products, etc., sugars and sugar confectionery, tobacco and manufactured tobacco substitutes
Indonesia	Vegetables textile fibres, paper yarn, woven fabric, residues, wastes of food industry, animal fodder, manmade filaments, stone, plaster, cement, asbestos, mica, etc. Articles, tanning, dyeing extracts, tannis, derivs, pigments, etc., sugars and sugar confectionary, tobacco and manufactured tobacco substitutes, explosive, pyrotechnics, matches, pyrophorics, etc., tools, implements, cutlery, etc of base metal
Malaysia	Vegetables, plaiting materials, vegetables products, residues, wastes of food industry, animal fodder, tanning, dyeing extracts, tannis, derivs. Pigments etc, oil seed, oleagic fruit, grain, seed, fruit, etc, tools, implements, cutlery, etc of base metal, animal, vegetables fats and oils, cleavage products, etc.
Philippines	Manmade, Special Woven Or Tufted Fabric, Lace, Tapestry Etc.
Singapore	Vegetables, plaiting materials, vegetables products, article of leather, animal gut, harness, travel goods, stone, plaster, cement, asbestos, mica, etc. Articles, tobacco and manufactured tobacco substitutes
Thailand	Lac, gums, resins, vegetables, saps and extracts, vegetables, plaiting materials, vegetables products, optical, photo, technical, medical, etc. apparatus, stone, plaster, cement, asbestos, mica, etc articles, special woven or tufted fabric, lace, tapestry etc,
Vietnam	Silk, cotton, tanning, dyeing extracts, tannins, derivs, pigments, etc., special woven or tufted fabrics, lace, tapestry etc, iron and steel

(b) POTENTIAL EXPORT COMMODITIES FROM ASEAN TO INDIA

Country	Commodities
ASEAN	Tin and articles thereof
Brunei	-
Cambodia	-
Indonesia	Electrical, electronic equipment, salt, sulphur, earth, stone, plaster, lime and cement, cotton, optical, photo, technical, medical, etc apparatus, nickel and articles thereof, tin and articles thereof, lac, gums, resins, vegetables saps and extracts, copper and articles thereof.
Malaysia	-
Philippines	Animal, vegetables fats and oils, cleavage product, etc., vegetables textiles fibres, paper yarn, woven fabric, lac, gums, resins, vegetables saps and extracts, edible fruit, nuts, peel of citrus fruit, melons.
Singapore	Photographic or cinematographic goods, lead and articles thereof, organic chemicals, tin and articles thereof.
Thailand	Salt, sulphur, earth, stone, plaster, lime and cement, cotton, edible vegetables and certain roots and tubers, optical, photo, technical, medical, etc. apparatus, tin and articles thereof.
Vietnam	Silk, optical, photo, technical, medical, etc. apparatus

Source - (Madaan and Sarin; 2014)

Conclusion:

The India-ASEAN economic trade saw an upward trend after the engagement of AIFTA, though the trade in value terms is declining for the past few years because of rise in China's international trade activities. India's Act East policy can act as a catalyst in enhancing the trade relations among ASEAN nations and India, but the increasing integration of China in trade among Asian countries and its strategic trade initiatives pose a challenge to India in maintaining its trade at sustainable levels. AIFTA represents an important step forward towards closer economic relationship among member countries. There still exists vast untapped trade potential between the India and ASEAN. Lower tariffs, enhanced connectivity and increased political engagement are of utmost importance to explore this untapped potential.

References:

1. Medalla, E. M. & Mantaring, M. C. (2009). *On free trade agreements: the Philippine perspective*, Philippine Institute for Development Studies, Manila, Philippines, (No. DP 2009-35).
2. The Indian Express (2018), *What is ASEAN?*, <http://indianexpress.com/article/what-is/what-is-asean-5028044/>, Accessed 28 March 2018.
3. Madaan, D.K. (2004): *"India's Trade Intensity with ASEAN"*, The Indian Economic Journal, Vol.52, No. 1-2, April-Sept., pp.142-151.
4. Ghuman, R.S. and Madaan, D.K. (2009): *"India-ASEAN Trade Relations during Post-WTO period"*, Sen, R.K. and Raj, J.F. (Eds.), *WTO and Asian Union*, Deep and Deep Publications, pp. 395-406.
5. Lee, H. H., Lee H.A. & Liew, K. S. V. (2007), *India-ASEAN-5 Economic Integration: Impact of Liberalization*, The IUP Journal of Applied Economics, VI (6), pp. 7-20.
6. Pradnya, P. (2009): *"India-ASEAN Economic Relations"*, Indian Institute of Management, Ahemadabad, Working Paper Series 108, pp. 1-24.
7. Yean, T. S., & Jia Yi, A. K. (2017), *Reassessing the Impact of the ASEAN-India Free Trade Agreement*, New Challenges to ASEAN-India Economic Partnership, KW Publishers, New Delhi.
8. Sikdar, C. & Nag, B., (2017), *Will India Gain from India-ASEAN FTA? Analysis of Simulated Scenarios based on Phased Implementation*, New Challenges to ASEAN-India Economic Partnership, KW Publishers, New Delhi.
9. Rocher S. B., (2017), *ASEAN-India Political Cooperation: How to Reinforce a Much Needed Pillar*, New Challenges to ASEAN-India Economic Partnership, KW Publishers, New Delhi.
10. Malik, M. (2012), *China and India Today: Diplomats Jostle, Militaries Prepare*. World Affair (July/August).
11. Sermcheep, S., Srisangnam, P. & Thamanovanish, N. (2017), *India-Thailand Partnership: Way Towards Greater Cooperation*, New Challenges to ASEAN-India Economic Partnership, KW Publishers, New Delhi.
12. Chirathivat, S. & Masali, A. D. (2017), *ASEAN-India Connectivity: Progress So Far*, New Challenges to ASEAN-India Economic Partnership, KW Publishers, New Delhi.
13. De, P. & Ray, J.K. (2013), *India-Myanmar Connectivity: Current Status and Future Prospects*. New Delhi: KW Publishers.
14. Madaan, D.K. & Sarin, V. (2014), *Commodities with Trade Potential in India – ASEAN Free Trade Agreement*, The Indian economic journal: the quarterly journal of the Indian Economic Association, Special Issue, pp. 184-193.