

## ***India-ASEAN Trade Relations***

Raminder Pal Singh, Punjab Technical University India  
Sangeeta Arora, Punjab University, India

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### **Abstract**

Regional Trading Blocs are established on the premise that free trade leads to greater efficiency and higher growth. Regional Trade Agreements vary widely, but the fundamental objective is to reduce or eliminate trade barriers between member countries in order to reap the benefits of increased economic co-operation and strengthen regional solidarity. It is considered to be especially vital for developing countries to form regional trading blocs in order to take advantage of globalisation and to protect their interests. The ASEAN-India partnership holds ample potential for a successful future. India understands that the ASEAN grouping consists of countries which have achieved significant development in the past 20 years. It is in its interest to establish beneficial linkages with the countries to benefit from their past experience and current standing. There is large potential in the synergies between its economy and that of the ASEAN countries and is keen to strengthen its economic ties with them. ASEAN's strategic location makes its stability crucial for India's energy and economic security, and it looks to develop its influence in the region by forging vital ties with ASEAN. With large potential for India and ASEAN countries to develop trade relations, it is one of the primary areas of concentration on both sides. This paper studies the trade relationship among India and ASEAN in recent past and the benefits India & ASEAN going to get of trading ties between two.

## **Introduction**

### **Trade Blocks**

A trade block can be defined as a ‘preferential trade agreement’ (PTA) between a subset of countries, designed to significantly reduce or remove trade barriers within member countries. When a trade block comprises neighboring or geographically close countries, it is referred to as a ‘regional trade (or integration) agreement’. It is sometimes also referred to as a ‘natural’ trade bloc to underline that the preferential trade is between countries that have presumably low transport costs or trade intensively with one another. The two principal characteristics of a trade bloc are that: (1) it implies a reduction or elimination of barriers to trade, and (2) this trade liberalization is discriminatory, in the sense that it applies only to the member countries of the trade bloc, outside countries being discriminated against in their trade relations with trade bloc members. The integration of countries into trade blocs is commonly referred to as ‘regionalism’, irrespective of whether the trade bloc has a geographical basis or not. The first waves of PTAs appeared in the 1930s leading to a fragmentation of the world into trade blocs. This ‘old (first) regionalism’ is also associated with regional initiatives involving developing countries in the 1950s and 1960s.

Based on the objective of import-substitution industrialization, the rationale was that developing countries could reap the benefit from economies of scale by opening up their trade preferentially among themselves, hence reducing the cost of their individual import-substitution strategy while the trade bloc became more self-sufficient. More successful experiences followed with the recent proliferation of trade blocs, the so-called ‘new (second) regionalism’, which involve mostly countries from the North with the South (the North-South trade blocs).

## **ASEAN**

### **Establishment of ASEAN**

The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam then joined on 7 January 1984, Viet Nam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.

## **ASEAN-India**

India has been following a “Look East Policy” since 1990s. India became a sectoral dialogue partner of ASEAN in 1992, which was upgraded to full dialogue partnership in 1996. In August 2009, India signed a Free Trade Agreement (FTA) with the ASEAN members in Thailand. Under the ASEAN-India FTA, ASEAN member countries and India will lift import tariffs on more than 80 per cent of traded products between 2013 and 2016, according to a release by the Ministry of Commerce and Industry. At the 7th ASEAN-India Summit in October, 2009, India announced a

contribution of US\$ 50 million to the ASEAN-India Co-operation Fund to support ASEAN-India projects across the range of sectors mentioned above. In addition, India has set up an ASEAN-India Science & Technology Development Fund with an initial corpus fund of USD 1 million and a USD 5 million ASEAN-India Green Fund for pilot projects to promote adaptation and mitigation technologies in the field of climate change. The ASEAN-India Trade-in-Goods Agreement signed in August 2009 at the ASEAN-India Economic Ministerial Meeting held in Bangkok, became fully operational from August 2011 when the process of ratification by all the ASEAN countries was completed.

An ASEAN-India Eminent Persons Group (AIEPG) has been set up to draft a new ASEAN-India Vision – 2020 document to be adopted at the Commemorative Summit. Three meetings of the AIEPG have been held in Phnom Penh from 2-3 August, 2011, New Delhi from 20-21 October, 2011 and Kuala Lumpur from 9-10 March, 2012. Delhi Dialogue IV on the theme “India and ASEAN: Partners for Peace, Progress and Stability” was held from February 13-14, 2012 in New Delhi which also flagged off ASEAN-India Commemorative Year celebration. The visit of the ASEAN Committee of Permanent Representatives (CPR)s to India from February 12-17, 2012 coincided with Delhi-Dialogue IV. India hosted the ASEAN-India Commemorative Summit on the theme “ASEAN-India partnership for Peace and Shared Prosperity” in New Delhi on December 20-21, 2012.

India and ASEAN are currently negotiating agreements on trade in services and investment. The services negotiations are taking place on a request-offer basis, wherein both sides make requests for the openings they seek and offers are made by the receiving country based on the requests. ASEAN-India functional cooperation is diverse and includes cooperation across a range of sectors, such as trade, science & technology, human resource development, space sciences, agriculture, new and renewable energy, information and communication technology, telecommunications, transport and infrastructure, tourism and culture. Co-operation between India and ASEAN is being intensified, including in the cultural, educational and academic fields, through the promotion of people-to-people contacts, and initiatives such as Youth Exchange Programmes, Special Training Courses for ASEAN Diplomats, Media Exchange Programmes and the ASEAN-India Network of Think Tanks Meeting. India has established Centres for English Language training (CELT) and Entrepreneurship Development Centres (EDC) in Cambodia, Lao PDR, Myanmar and Vietnam (CLMV countries).

## Trade Data

### INDIA – ASEAN TRADE & GROWTH %: (US\$ million)

YEAR	EXPORTS	% GROWTH	IMPORTS	%GROWTH
<b>2000-01</b>	2,913.78		4,147.48	
<b>2001-02</b>	3,457.01	18.64	4,387.22	5.78
<b>2002-03</b>	4,618.54	33.6	5,150.17	17.39
<b>2003-04</b>	5,821.71	26.05	7,433.11	44.33
<b>2004-05</b>	8,425.89	44.73	9,114.66	22.62
<b>2005-06</b>	10,411.30	23.56	10,883.67	19.41
<b>2006-07</b>	12,607.43	21.09	18,108.48	66.38
<b>2007-08</b>	16,413.52	30.19	22,674.81	25.22
<b>2008-09</b>	19,140.63	16.62	26,202.96	15.56
<b>2009-10</b>	18,113.71	-5.37	25,797.96	-1.55
<b>2010-11</b>	25,627.89	41.48	30,607.96	18.64
<b>2011-12</b>	36,744.35	43.38	42,158.84	37.74
<b>2012-13</b>	33,008.21	-10.17	42,866.36	1.68

SOURCE: India's department of commerce and industries (2013)

India's trade with ASEAN has shown an increasing trend in all these years. But Balance of Trade during this tenure has been negative as India is importing more as compared to exports to ASEAN nations. However the growth rate has shown fluctuating trend.. Export's growth rate has come down in 2003-04 and increasing very next year, but again decreased continuously for two years i.e. 2005-06 and 2006-07. In 2008-09 again it has decreased whereas in 2009-10 the exports have shown negative growth rate. Thereafter for two years the growth rate has shown increasing trend but again in 2012-13 it has shown -ve growth rate..likewise growth rate has shown + and increasing trend for first three years but in 2004-05 and 05-06 it has come down. The very next year imports have shown a drastic growth rate of 66.38 but thereafter continuously decreased for three years showing -ve growth rate in 2009-10 which was overall a lean year for whole world. The imports growth rate improved in next two years but again came down in 2012-13 to just 1.68.

## INDIA'S TRADE RELATIONS WITH ASEAN AND WORLD: A COMPARISON

**Table 2.2.1 INDIA'S TOTAL TRADE & Trade with ASEAN**

YEAR	ASEAN		WORLD
	Trade	% Share	
2000-01	7061.26	7.42	95096.74
2001-02	7844.23	15.25	51417.96
2002-03	9768.71	8.56	114131.57
2003-04	13254.82	9.33	141991.66
2004-05	17540.55	8.99	195053.37
2005-06	21294.97	8.44	252256.26
2006-07	30715.91	9.8	312149.29
2007-08	39088.33	9.42	414786.19
2008-09	45343.59	9.27	488991.67
2009-10	43911.67	9.4	467124.31
2010-11	56235.85	7.45	620905.32
2011-12	78903.19	9.92	795283.41
2012-13	75874.57	9.59	791137.33

Source: CIA Fact Book 2013

**Table 2.2.2 Trade Indices**

Base year 2005-2006= 100

YEAR	ASEAN	
	TRADE	Indices
2000-01	7061.26	33.16
2001-02	7844.23	36.83
2002-03	9768.71	45.8
2003-04	13254.82	62.24
2004-05	17540.55	82.37
2005-06	21294.97	100
2006-07	30715.91	144.22
2007-08	39088.33	183.55
2008-09	45343.59	212.9
2009-10	43911.67	206.2
2010-11	56235.85	264
2011-12	78903.19	370.5
2012-13	75874.57	356.3

Source: CIA Fact Book, 2013

India's trade with World has continuously shown an increasing trend since 2000-01. Simultaneously India's trade with ASEAN also has shown an increasing trend during all these years. However India's trade with ASEAN's percentage share has shown fluctuating trend but over all its varying in between 9% to 10% except in 2000-01, 2002-3 and 2010-11. To calculate the Trade Indices 2005-06 has been taken as base year. The trade indices has shown an increasing trend since 2000-01 to 2008-09; however in 2009-10 it has come down and thereafter for two years subsequently shown an increase but again decreased in 2012-13.

## **Conclusion & Suggestions**

### **Conclusions**

The more than twenty years of relationship between India and ASEAN in the past and the prospects that India and ASEAN nations share today means that there is lot of potential for the development of a dynamic partnership. But it requires bold decisions, innovative policies and smart politics on the part of India and ASEAN leaders in order to get rid of past potential obstacles as well as push through initiatives that provide opportunities for enhancing the relationship and not to concentrate on common interests only. India and ASEAN need to consider as to how they can continue to work in tandem to fulfill potential of their partnership and ensure the India-ASEAN relations getting fortified as one of the cornerstones in the evolving regional architecture. Together, they can create a vibrant and dynamic region that will elevate, prosper and improve the lives and livelihoods' of their peoples

### **Challenges Ahead**

Both India and ASEAN must display vision and courage to cop-up with challenges to their relationship and fully reap the benefits of mutual cooperation. The greatest challenge to India-ASEAN relations particularly in the economic aspect, has been and will continue to be protectionism nature of partnering nations. So both India and ASEAN leaders must continue to resist protectionism in the future if they wish to improve bilateral economic cooperation.

Lack of economic structural reforms in India and ASEAN could also limit prospects for future cooperation. However sustaining the robust economic growth warrants bilateral cooperation in both major institutional fiscal and bold policy changes in pursuit of enhancing Indian economic resilience and boosting export competitiveness as well as improving the business environment for ASEAN investment. Infrastructure programs need to be improved for boosting foreign interest in investing besides allowing foreign investment in certain sectors like defence.

Another challenge is the relative lack of development in the human dimension compared to other aspects for the relationship. Without robust people-to-people interactions at the grassroots level, it will be difficult to develop the consciousness necessary for creating a strong and lasting bond between India and ASEAN. It does require not just developing people-to-people exchanges through traditional methods like business exchanges, trade fairs, media entertainment etc. but far beyond the practice in vogue. It also means more measures like exchange programs involving youth, academics, artists and literati, initiating dialogue among civil society organizations and non-governmental organizations on issues such as public health, and twinning programs involving cities and universities. Concentrating on the human dimensions of the relationship provides a firmer foundation critical for its development in the long run.

## **The Opportunities ahead for Future Cooperation**

For improving the relationship and making it more firm it requires not only addressing future challenges, but also capturing new opportunities and initiating new ideas for future cooperation.

ASEAN for its part, could seriously consider the matter of joining the United States, Japan and Australia in supporting India's bid for entry into the Asia Pacific Economic Community (APEC). Practically speaking, India the fourth largest economy in the APEC region (after China, Japan and the United States), and as others have argued, it makes no sense for it to be excluded when it is already a member of important institutions such as EAS and the G-20 (Wendy 2009). India-ASEAN FTA has a potential to create a huge market for services like banking, information technology, telecom, education and tourism. The investment agreement is expected to attract FDI from the ASEAN members and provide opportunity for Indian companies to invest in the ASEAN region in areas such as pharmaceuticals, coal mining and automobiles.

India should also focus on renovating and reinvigorating existing sub-regional initiatives that have not lived up to their promise. Despite some early successes, the MGC (Mekong Ganga Cooperation) has been bogged down by multi-year meeting delays, petty arguments over acronyms and ad-hoc projects that lack any sort of vision (Swaran, 2007) This is despite the fact that India's close cultural and civilization links with the sub-region that could afford a great opportunity for cooperation and that strengthening bilateral ties helps serves key Indian interests such as developing its poor north-eastern region and balancing China's influence in Mekong (Julien, 2007).

India's other sub-regional initiatives, BIMSTEC, also needs to reinvigorated. BIMSTEC certainly has had its fair share of successes. Despite meeting delays and implementation drags, priority areas of cooperation have broadened from six in 1997 to thirteen in 2006 and fourteen in 2009, while the grouping has signed agreements to set up an energy center in India to promote grid interconnection in March 2010 and cooperate in combating international terrorism, transnational crime and illicit drug trafficking in 2009 (Feng, 2010). But other measures such as free trade pact have not been realized, although a framework agreement was inked in 2004. In addition to providing a forum for functional cooperation, BIMSTEC-FTA is also under negotiation.

India needs to think strategically about long-term avenues for boosting cooperation beyond BIMSTEC and MGC. To start with, maritime security was at the top, since most of the future common challenges India and ASEAN would be facing were maritime based- from climate change to piracy or China's naval buildup. India could consider taking an even more robust role in helping maintain security along the waterway, particularly in terms of joint policing with neighbouring countries.

India should also accelerate the process of converting the annual 13-nation Milan joint naval exercises it hosted – which includes Indonesia, Malaysia, Myanmar, Brunei, Singapore, Thailand and Vietnam – into a full-fledged joint taskforce for the Asia-Pacific region. The move would help further enhance interoperability between navies in the region on issues such as piracy and disaster relief as well as boost India's leadership role in the maritime domain. A more connected region, besides

contributing to the economic growth and stability of India and ASEAN, would enhance the flow of people, ideas, culture and a sense of affinity that has connected us for thousands of years.

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