

ASEAN-India Free Trade Agreement in Goods: Emerging issues in India's changing trade policy strategy

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Trade Integration between India and ASEAN: Traditionally low

- *Difference in Trade policy strategy*
- Bigger South East Asian economies follow an FDI-dependent export growth strategy since the mid-1980s.
- MNCs' production network strategies *led to de facto* market-driven regional integration in East Asia.
- Hence, ASEAN's trade links greatest with:
 - East Asian countries involved in production sharing, or
 - their major developed country markets.
- India's trade and investment policies remained relatively restrictive despite economic reforms and liberalisation and less dependent on FDI inflows.

Recent Trends in India's Trade Policy and Merchandise Trade

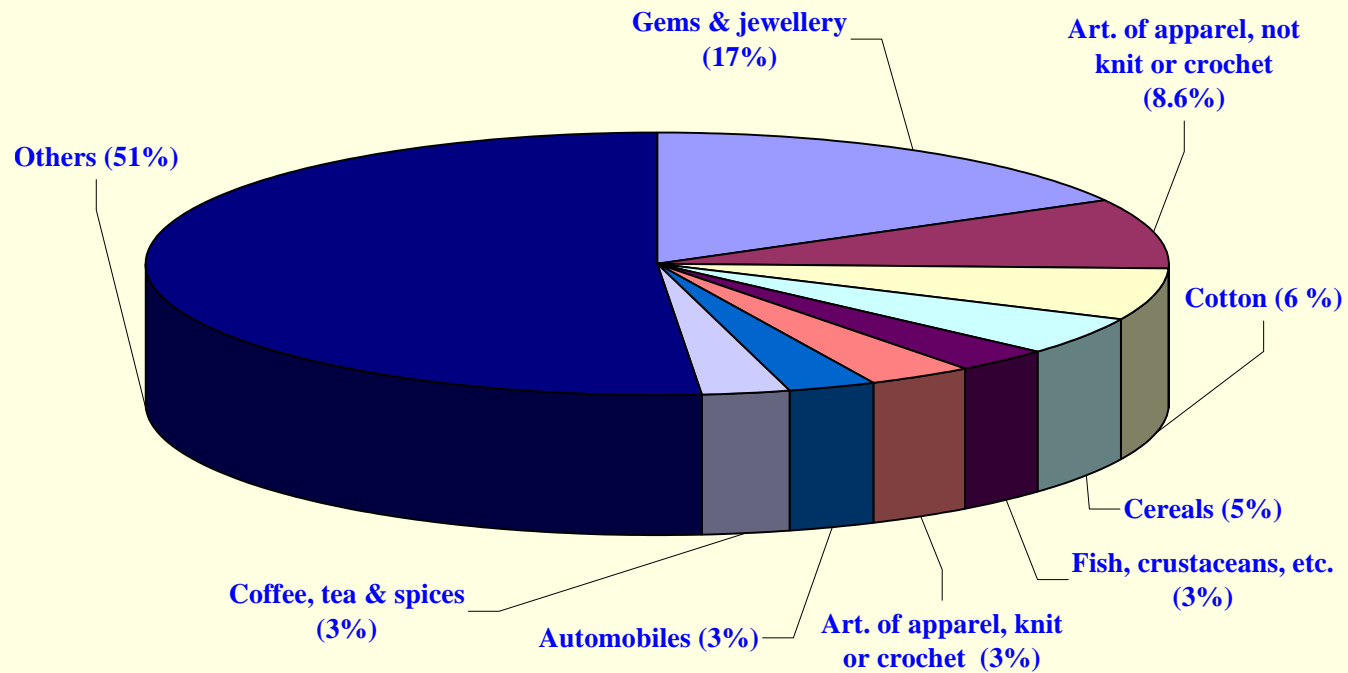
- India did not follow production network-driven export growth strategies, until recently.
- Steady liberalization of FDI rules in many sectors by India.
- Recent trends in India's trade point to increased two-way trade in some sectors.

India's Global Imports

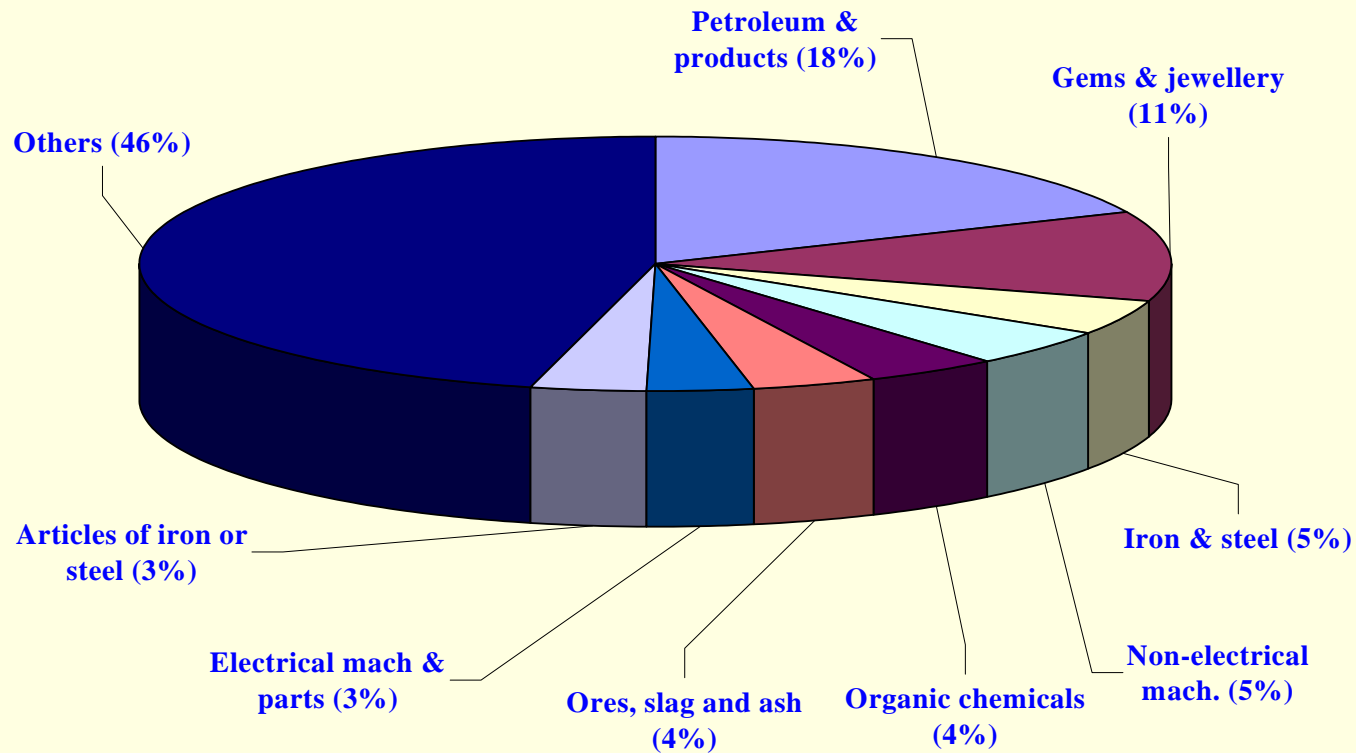
- Commodity composition of India's imports at the 2-digit HS level between 1995 and 2008 shows no change among the top 6 rankers:
 - Petroleum & petroleum products;
 - gems and jewellery;
 - non-electrical machinery;
 - electrical machinery & parts;
 - iron and steel; and
 - organic chemicals.

- These constituted more than 63% of total India's imports from the world in 1995 and 71% in 2008 (reflecting the increased shares of the petroleum sector, gems & jewellery and electrical machinery sectors).

Top Indian Exports to the World, 1995



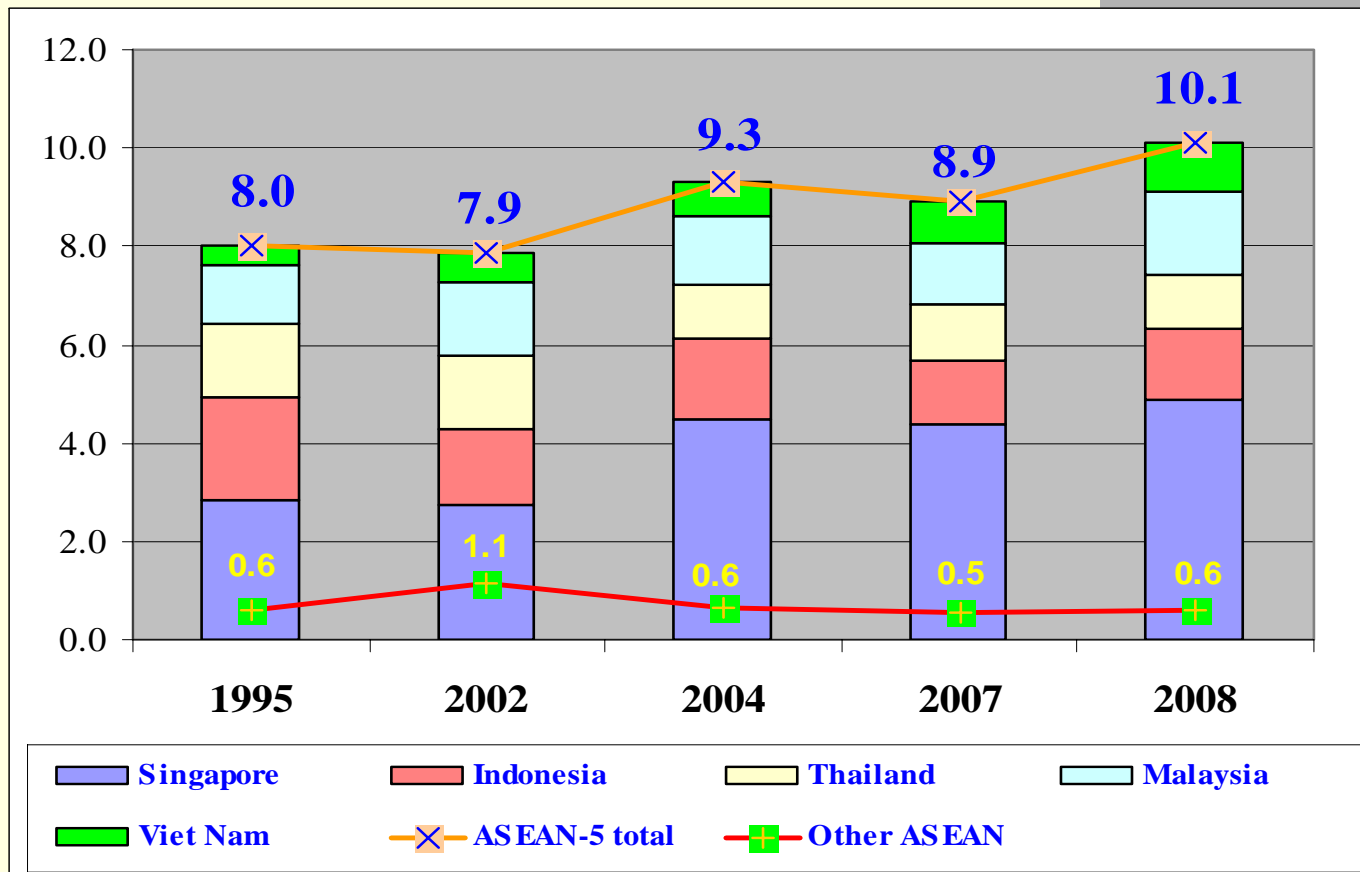
Top Indian Exports to the World, 2008



India's Overall Trade Patterns

- Iron & steel products, organic chemicals, as well as electrical and non-electrical machinery and parts have replaced labor and resource-intensive exports.
- There has been an increase in two-way trade dominated by:
 - Petroleum & petroleum products;
 - Gems & jewellery;
 - Organic chemicals;
 - Electrical machinery; and
 - Iron & steel.
- There has also been a shift in India's trade towards Asia, dominated by China and South Korea followed by UAE, Saudi Arabia and Southeast Asia.

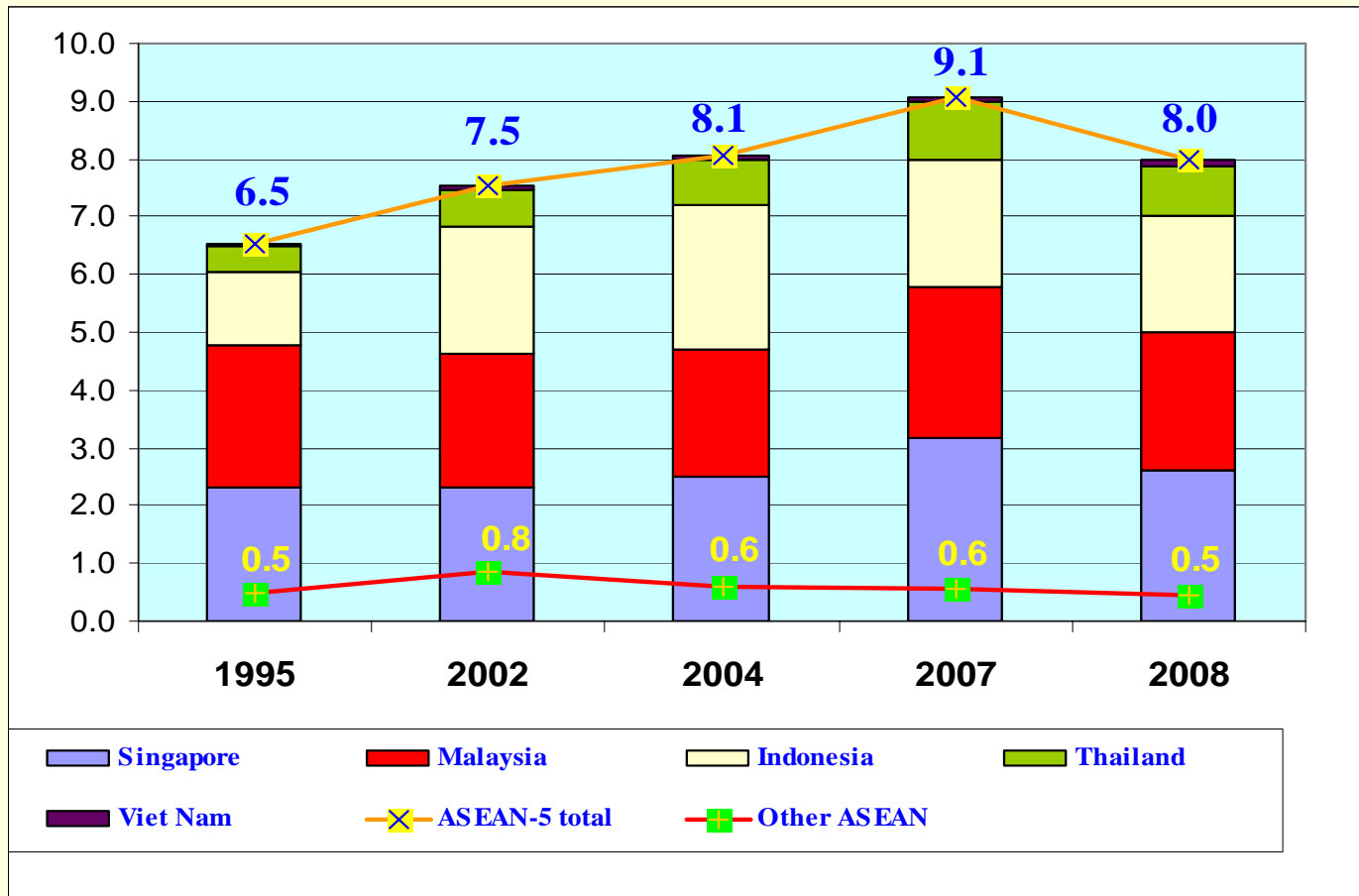
Increase in ASEAN's Share in India's Exports



India's Growing Imports from ASEAN

- India's total imports from ASEAN show a steady rise until 2007.
- Singapore, Malaysia, Indonesia and Thailand showed significant increase in shares.
- Philippines, Cambodia, Laos, Myanmar and Brunei Darussalam have not accounted for even a one per cent share in India's exports or imports until now.

ASEAN's share in Indian Imports, 1995-2008



Market access for ASEAN Countries in India

- Access to the growing Indian market has been the most promising prospect that the ASEAN economies want to secure.
- Despite her higher tariffs, India has had an overall trade deficit with ASEAN-5 and with ASEAN-10 during 2002-07.
- Except for Singapore, the only countries with which India had a trade surplus in the recent years were Philippines, Vietnam and Cambodia, who are not significant trade partners.

India's Schedule for AIFTA

Tariff reduction starts on 1 January 2010.

1) **Normal Track-1 (NT-1)**

- 70% of the total 6-digit tariff lines
- Tariffs drop to zero by 31 December 2013.

2) **Normal Track -2 (NT-2)**

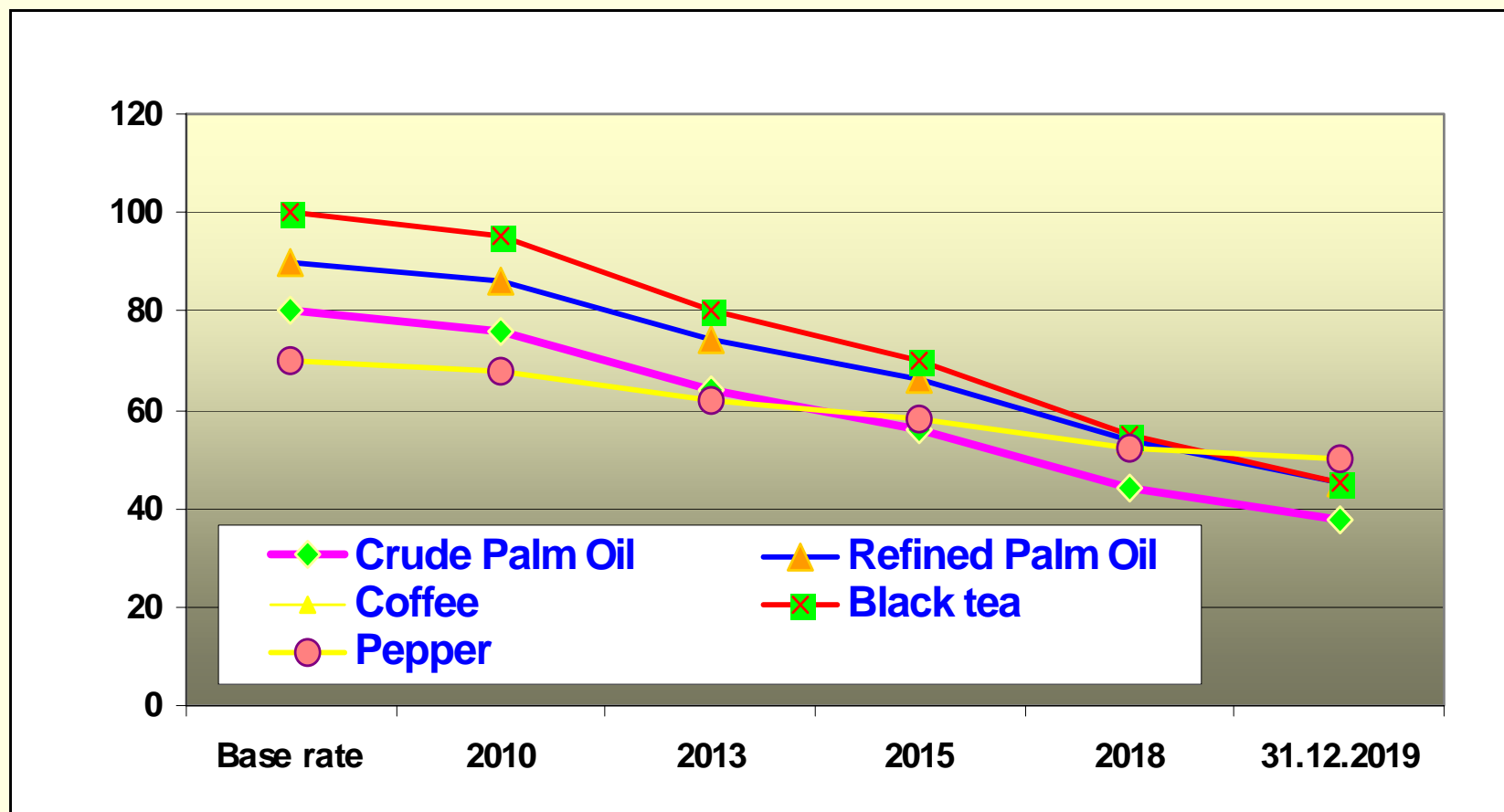
- 8.9% of the total tariff lines
- Tariffs will drop to zero by 31 December 2016.

3) **Special Products** list consists of 0.1% of total tariff lines.

4) **Exclusion List (EL)** consists of 9.8% of total tariff lines

India's Special Products

(AIFTA preferential tariffs not later than 1 January)



India's Schedule for AIFTA (Sensitive Track)

5) Sensitive Track (ST)

- 11.1% of total tariff lines
- Applied MFN tariffs above 5% to be reduced to 5% by 2016.
- But, applied MFN tariffs can be maintained at 5% for 50 tariff lines.
- For remaining products (with applied MFN at 5%), these will be reduced to 4.5% in January 2010 itself and to 4% by 2016.
- Applied MFN tariffs on 4% of the products placed in the Sensitive Track also to be dropped to zero by 2019.

India's Exclusion List

- Exclusion List
 - 489 items.
 - Of these, 268 product lines come under the agricultural sector.
- Exclusion list is to protect farmers

Impact on Agriculture

- However, some crops may have close substitutes (e.g. palm oil and other vegetable oils such as olive oil in the case of coconut oil).
- Also semi-processed or processed versions may be imported.
- Rise in all these imports will have negative impacts on farm livelihoods through reduced demand for local products and fall in prices.

Tariff Reduction Scenario of India's Normal Track -I (For ASEAN-5 agricultural sectors with 5% or more share in India's imports from the world)

Chapter Description	2007 Aver. MFN	Drop by 2010	Drop by 2013
Meat and edible meat offal	30.0	5.0	30.0
Products of animal origin, nes	28.7	4.8	28.7
Edible fruit, nuts, peel of citrus fruit, melons	27.4	4.5	26.4
Coffee, tea, mate and spices	30.0	5.0	30.0
Lac, gums, resins, vegetable saps and extracts nes	27.0	4.5	27.0
Vegetable plaiting materials, vegetable products nes	30.0	5.0	30.0
Animal,vegetable fats and oils, cleavage products, et	31.0	6.3	31.0
Miscellaneous edible preparations	30.0	5.0	30.0
Residues, wastes of food industry, animal fodder	29.1	5.0	29.1
Total no. of tariff lines under Agri (HS 1-24)	29.2	5.0	29.1

Tariff Reduction Scenario of India's Normal Track -I (For ASEAN-5 Non-agricultural sectors with 5% or more share in India's imports from the world)

HS Chapter Description	2007 Aver. MFN (%)	Drop by 2010 (% point)	Average Preferential tariff in 2013 (%)
Ores, slag and ash	3.3	0.5	0.0
Rubber and articles thereof	9.4	2.3	0.0
Wood and articles of wood, wood charcoal	9.0	2.2	0.0
Pulp of wood, fibrous cellulose material, waste etc	5.5	1.2	0.0
Printed books, newspapers, pictures etc	4.7	1.2	0.0
Manmade staple fibres	10.0	2.5	0.0
Tin and articles thereof	6.0	1.3	0.0
Musical instruments, parts and accessories	10.0	2.5	0.0
Furniture, lighting, signs, prefabricated buildings	10.0	2.5	0.0
Average for the above nine Sectors	7.5	1.8	0.0

Tariff Reduction Scenario of India's Normal Track -II (For ASEAN-5 Agricultural sectors with 5% or more share in India's imports from the world)

HS Chapter Description	2007 Aver. MFN (%)	Drop in tariff by 2010 (% point)	Drop in tariff by 2013 (% point)
Edible fruit, nuts, peel of citrus fruit, melons	30.0	5.0	19.0
Coffee, tea, mate and spices	30.0	5.0	19.0
Milling products, malt, starches, insulin, wheat gluten	30.0	5.0	19.0
Animal,vegetable fats and oils, cleavage products, etc.	37.0	13.4	27.0
Average for the above four sectors	31.8	7.1	21.0

Tariff Reduction Scenario of India's Normal Track -II

(For ASEAN-5 Non-agricultural sectors with 5% or more share in India's imports from the world)

Chapter Description	2007 Aver. MFN	Drop by 2010	Drop by 2013
Rubber and articles thereof	10.0	2.5	7.0
Wood and articles of wood, wood charcoal	10.0	2.5	7.0
Pulp of wood, fibrous cellulosic material, waste etc	10.0	2.5	7.0
manmade staple fibres	10.0	2.5	7.0
Furniture, lighting, signs, prefabricated buildings	10.0	2.5	7.0

Likely Implications for Increased Market Access for ASEAN-5 in India

- Considerable market for ASEAN countries in agriculture & food products (HS 1-24), transport equipment, several light manufacturing and intermediate goods.
- Negative impact on domestic farmers and small and medium enterprises.
- Greater benefit for MNCs for production rationalisation across the region due to import liberalisation in intermediate goods.
- India's deeper integration into production networks in some industries like machinery, chemicals and transport equipment.
- Trade integration built through production chains will increase the country's vulnerability to external shocks further – causes synchronized contraction of trade flows across countries taking part in production networks (as seen in the current crisis).

Market Access Scenario for India in ASEAN-5

	Normal Track -I			Normal Track -II		
	Avg. 2007 MFN	Drop by 2010	Drop by 2013	Avg. 2007 MFN	Drop by 2010	Drop by 2013
India	12.9	2.8	12.9	9.5	3.1	9.5
Malaysia	1.9	0.4	1.9	19.0	3.2	12.1
Indonesia	2.6	0.5	2.6	4.7	0.9	2.8
Singapore	0.0			0.0		
Thailand	6.5	1.3	6.5	18.0	4.0	12.3

Market Access Scenario for India in ASEAN-5

- The average applied MFN tariff rates in Malaysia and Indonesia are very low for Normal Track-I.
- All NT-I tariffs drop to zero by 2013.
- But, hardly any immediate benefit as average drops by 2010 and 2013 in Malaysia and Indonesia' NT-I products are much lower than India's reductions.
- India is currently not a significant exporter to Indonesia in any of the Indonesian sectors that offer the largest tariff reduction to India under NT-I and NT-II.
- But, the tariff reductions to be carried out by Malaysia and Thailand by 2013 are significantly larger for NT-2 products when compared to India's NT-II reductions.
- India is likely to benefit from the increase in market access for cotton, rubber & rubber articles as well as manmade filaments given that these are already among India's exports to Malaysia.

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- For Thailand, vehicles other than railway, tramway, (that is, automobiles) is one important sector of Indian exports to Thailand that will gain from significant tariff reductions under AIFTA.
 - In general, Indonesia, Malaysia and Thailand's largest tariff reductions under AIFTA will occur in sectors consisting largely of agriculture and food products as well as a range of light manufacturing products.
 - ASEAN-5 are leading exporters of light manufacturing products and are considerably more competitive than India in many of these sectors.
 - The only exception is likely to be Vietnam - applied tariff rates are higher than other ASEAN members.

Market Access Scenario for India in ASEAN-5 (Continued...)

Indian SMEs will find it difficult to compete with these countries in such sectors.

- Secondly, India will also be competing with China in the ASEAN market which already has signed an FTA with these countries.
 - MNCs involved in production sharing will benefit.
 - Indian MNCs will also benefit from tariff rationalisation.
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Emerging Issues in FTA-driven Trade Strategy

- Neglect of agriculture and domestic manufacturing base.
- Expected gains for India's service-oriented economy
- Problems in service sector liberalisation.
- Livelihood and employment issues to become more acute.
- South-South FTAs following the same model as North-South FTAs and forcing adverse sectoral trade-offs.