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After India - ASEAN FTA

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The signing of India-ASEAN Free Trade Agreement has been one of the biggest things that could happen to the 10-member bloc of Association of Southeast Asian Nations (ASEAN). Whether it was also one of the best for either India or ASEAN or both cannot be said at this moment. For India it would go down as a landmark in its long and bumpy pursuit to acquire a meaningful and working equation with the rest of Asia. This is important from the point of view of economics as much as of realpolitik. A time has come in the life of India when it has to make conscious efforts to 'belong' to Asia, for in the end this is where its destiny lies. As history shows, right from the great Asoka's religious offensive down to Subhas Chandra Bose's Azad Hind Fauz to Jawaharlal Nehru's dream concepts, the Panchsheel and the Bandung Conference, India has turned to the East, first, for friends and, secondly, for seeking the building blocks for a better Asia. Most of the aggressions it has faced have come from the west and Western powers.

Asia, more than the rest of the world with the exception of the Soviet bloc, has moved quite a distance from the ground-realities that made the backdrop of the Bandung Conference. But the good thing is that the Indian tradition from the classical days to the contemporary times, as reinterpreted and reformulated by Nehru during his prime ministership, has remained by and large alive in India's corridors of powers. Because of that, some people in authority have not only not lost their faith in the goodness of carrying that tradition forward but has fought strong resistance building inside on many issues. Atal Behari Vajpayee propounded the 'Look East' slogan and aired his vision of a single currency for South Asia. Manmohan Singh has carried that flag ahead. But he too has faced considerable pressure from several political groups and local lobbies who opposed the signing of the FTA.

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An FTA means opening up of trade. As such it fits well with one of the high-priority features of the contemporary economy models. The models stand for market economics, privatization and minimalisation of government's role in the economic field, liberalization of trade and dismantling of protective tariff and non-tariff walls. But the perspective changed dramatically when the global economy ran into a severe recession in the last quarter of 2008 and had still not quite run itself out. As a result, many of these principles have come under fresh strain. Public opinion around the globe mounted pressure to drop some of these canons of modern economics and return to the good old days of protective trade systems, more and more government dominance in industry and such other familiar ideas. All this signalled the pro-protection lobbies in India to become more aggressive and oppose trade liberalization. Their main point has been that the FTA in effect would mean the danger of cheaper agricultural products such as natural rubber, tea, pepper, marine products and edible oil flooding the domestic market and hurting the local farmer.

The Commerce Ministry has contended that it has taken care to include in the FTA conditions that will safeguard the interests of the domestic producers. Thus the duty on highly sensitive farm products such as black tea, coffee, pepper, crude palm oil and refined palm oil will not be lowered till December 2019. When the duty is finally cut, the final duty on sensitive farm products will stay around 37.5 per cent to 50 per cent. Besides, 489 items have been kept in the negative list and would not face any duty cut. But the din of protests has not quite died down. Particularly vociferous has been the spokespersons of Kerala's agricultural products who fear that liberalized imports of rubber, tea, pepper, coconut, cashew nut, cardamom, edible oils, and fish, shrimp and such other marine products will undermine the interests of the local producers. Government leaders and negotiators have been trying to assuage their fears but the skepticism persists. The fact is that these items are currently not doing badly but that the FTA may change it all. India's exports of fresh and processed vegetables and fruits, livestock and cereals went up nearly 24 per cent in 2008-09. India's share in farm exports are projected to rise from 2 per cent to 5 per cent in the next five to six years. But such successes have created its own problem. Their beneficiaries do not want the status quo to be changed. That does not mean some people are denying or overlooking the danger that cheap imports might cause to agricultural products. The danger is there and it is real. In the worst case scenario, the production of some of these items could drop dramatically and some others might even cease to be produced. But it would be wrong to blame the FTA or a new regime of liberalized trade for such tragic turns. What has to be blamed is the inefficiency that inheres, and has been perpetuated, in much of India's farming sector as has been tellingly shown in the virtual stagnation in India's agricultural production and productivity over the years. Imports will take place when it is found that these make sense. A strong vibrant domestic production is the best bulwark against 'foreign invasion'.

Table 1

**Indian Exports to ASEAN
(In US\$ million)**

Country	2008-2009 (Apr-Dec)	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
<i>BRUNEI</i>	13.550	10.450	8.300	42.940	5.060	4.590	4.450	2.860
<i>CAMBODIA</i>	35.940	53.450	52.120	24.190	18.130	18.600	19.840	11.290
<i>INDONESIA</i>	1816.070	2160.180	2026.500	1380.200	1332.600	1127.200	826.060	533.710
<i>LAO PDR</i>	3.620	3.830	2.380	5.470	2.650	0.430	1.580	3.160
<i>MALAYSIA</i>	2027.950	2568.840	1303.290	1161.860	1084.060	892.760	749.370	773.690
<i>MYANMAR</i>	173.280	185.430	139.950	110.700	113.190	89.640	75.070	60.890
<i>PHILIPPINES</i>	574.220	618.950	582.090	494.660	412.230	321.530	472.000	247.790
<i>SINGAPORE</i>	6556.700	7371.150	6064.190	5425.290	4000.610	2124.830	1421.580	972.310
<i>THAILAND</i>	1441.310	1808.790	1443.220	1075.310	901.390	831.680	711.200	633.130
<i>VIETNAM</i>	1134.450	1603.160	981.840	690.680	555.960	410.430	337.390	218.170
Total	13777.080	16384.250	12603.860	10411.300	8425.890	5821.710	4618.540	3457.020

Table 2

**Indian Imports from ASEAN
(In US\$ million)**

Country	2008-2009 (Apr-Dec)	2007-2008	2006-2007	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
<i>BRUNEI</i>	268.530	225.810	285.010	0.880	0.540	0.340	0.320	0.360
<i>CAMBODIA</i>	2.250	2.870	1.580	0.780	0.240	0.280	0.610	1.120
<i>INDONESIA</i>	5042.000	4826.060	4165.820	3008.110	2617.740	2122.060	1380.870	1036.810
<i>LAO PDR</i>	0.480	0.110	0.360	0.100	0.050	0.130	0.150	0.040
<i>MALAYSIA</i>	5863.190	6007.840	5290.670	2415.610	2299.010	2046.550	1465.420	1133.540
<i>MYANMAR</i>	688.590	809.940	781.930	525.960	405.910	409.010	336.040	374.430
<i>PHILIPPINES</i>	168.360	204.740	167.250	235.490	187.390	122.110	123.770	94.840
<i>SINGAPORE</i>	5823.390	8121.610	5485.260	3353.770	2651.400	2085.370	1434.810	1304.090
<i>THAILAND</i>	2066.130	2302.130	1744.250	1211.580	865.880	609.050	379.000	423.090
<i>VIETNAM</i>	315.770	173.470	167.520	131.390	86.500	38.210	29.180	18.910
Total	20238.690	22674.580	18089.640	10883.680	9114.660	7433.110	5150.170	4387.220

For all this, India's overall trading with ASEAN has lately been showing some life. India exported \$16 billion and imported \$23 billion in 2007-08, leaving an adverse trade balance of a little over \$6 billion. A more impressive showing has been the acceleration in the growth in year-to-year figures. In money terms the trade during the first half alone of the current fiscal year has equaled 87 per cent of what was achieved during the whole of the previous year. The trend looks encouraging. Table 1 shows a sharp jump in both imports and exports during the last seven and a half years. Imports have grown a little faster by 4.6 times, beating exports which have done 4 times. But all this pales into a poor show when viewed against what China has done in ASEAN trade. In 2008, the two traded merchandise valued at \$193 billion and the two way was more or less balanced. This was more than the volume transacted in

the world's first two trading blocs, the European Union and the North American Free Trade Agreement (NAFTA).

For India and for ASEAN, China has become the most important entity to reckon with. When the southeast Asian forum was first conceived in 1967, it was largely seen as a kind of collective response to China which was identified in a Cold War world as one of the most powerful carriers of communist viral onslaughts and communist insurgencies. And southeast Asia was uncomfortably close to the place where it all would start. But China has steadily shed that image – or identity, as variously seen by outsiders – and has tried to cast itself in a new mould. It has steadily added to its economic sinews and today is an economic super-power in the making. Some of its neighbouring countries see in its rise a fresh opportunity to secure a share in its good times by way of trading and tapping its investible and human capital. They also see in its rise a viable counterweight to the big powers who otherwise might have got away with a walkover in a region that militarily, and in terms of economic potential, remains a vast and not fully utilized territory. But there is nothing like free chow mein. For China befriending ASEAN means another new dimension as it slowly inches up to the top of the pile. To start with, tapping the ASEAN market successfully could itself be a windfall for China. And figures tell the story. The China-ASEAN Free Trade Area, which will take full effect in next January, will represent a total GDP of nearly \$6 trillion and a merchandise trade volume in the range of \$4.5 trillion. It will mean a market of nearly 1.9 billion people which, barring some unforeseen twists and turns, could come to represent considerable purchasing power. China has been choosing its friends and setting its house in order in this region with painstaking care and caution. It is entering into bilateral and regional trade agreements seemingly rather liberally. A recent count shows that out of nearly 400 trade agreements notified to the World Trade Organisation (WTO) so far, over 320 have come from the Asia-Pacific region. An overwhelming percentage out of this has China on one side and an Asian country on the other. China entered the WTO in late 2001. But soon enough it signed a host of FTAs with countries as politically varied as Chile, Pakistan, New Zealand and Peru. And now it is readying for another 20 or more FTAs. In its ties with the ASEAN, it is two notches up on India. It has already signed FTAs on investment and services. India has just signed the FTA on trade, and still has two to go. All this shows China's growing interest in ASEAN. When in the wake of the recent global economic setback, a section of public opinion has swung in favour of some kind of protectionist policies, China has chosen to promote more of bilateral ties with a view keeping trade flow easy and unhampered. China sees it as one way of matching the needs of globalization with the requirements of regional integration.

But how would others react to it? The United States during the Bush Administration did not seem to have much time for this region, particularly after 9/11 and in view of its deep Iraq involvement. But the Obama regime is trying to be different. The USA has till now signed FTAs with only two Asian countries, Singapore and South Korea. But the picture might now be changing. Some straws in the wind are already visible. For instance, after retaining a virtual freeze on its relations with Myanmar, the US during the last few months has sent senior diplomats to the country. It is participating in many of the regional bodies that variously covers the Asia-Pacific area. For the USA, a priority item in its new Asian policy is to make up the lost time. But good intentions alone would not do. During the last two decades or so, the Asian countries in their own way have pieced together their ties and their plans.

China and Japan, for instance, have been pushing their trade links hard. Out of the five major two-some trade partners identified all over the world, the China-Japan pair has been regarded as having the least of conflicting trade interests. It is not like this with pairs such as US-Mexico, US-Japan, US-Canada, and France-Germany. Both China and Japan have tried to push their currency as the Asian currency. But their moves have cancelled out each other. The Asian Development Bank has chosen something different. It is trying to promote Asian Currency Unit (ACU) as the common currency for Asia.

India is caught amidst such crossfire. Like many other countries, it cannot have, nor does have, any confusion about China's Asian activism and long-term plans. But it is not sure what it can do to face up to the situation. It is keeping its efforts to keep its China policy open and flexible. One direction it has chosen has been to develop some kind of sub-regional architecture. BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) cannot include China by its geographical coordinates. China has remained one of the observers. Similarly, SAARC (South Asian Association for Regional Cooperation) has no Chinese membership. But, it is equally true that neither of these organizations enjoys the kind of prominence that ASEAN does. That is because the ASEAN sees much more action and is in the news more often. The ASEAN FTA could mark a new start. And India's importance and relevance will grow as the ASEAN members, like many Western countries, take note of the strident march of its economy and its infinite potentials. Among ASEAN's existing 10 members not many have so far really seriously tried economic development or have reaped many of its fruits. But some like Singapore, Indonesia and Thailand are very much in the game. An enlarged opportunity for doing business with a vibrant, emerging economy such as India's would be for them a welcome break. Every country likes to have multiple choice when it comes to picking partners for interaction. In making the choice, it takes into account not just political and strategic perspectives but also the economic calculus. India is one of the top seeds on both these counts. The India-ASEAN FTA would hasten process of coming together of parties who in many ways are natural complements of each other.

CSIRD Policy Briefs are prepared to communicate results of in-house research on specific policy issues to the policy makers, research scholars and other stakeholders. This policy brief, prepared by Mr. Jayanta Sarkar, Director, CSIRD, is based on the finding and recommendations of a recent CSIRD Study on India – ASEAN FTA. Views expressed by the author are his personal. Usual disclaimers apply.