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Theme 217

ASEAN - INDIA FREE TRADE AGREEMENT (AFTA)

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**Theme No. 217 : ASEAN - INDIA FREE TRADE AGREEMENT (AIFTA)**

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India's engagement with the Association of South East Asian Nations (ASEAN) started with its "Look East Policy" in the year 1991. This policy was adopted to diversify destination of exports from the traditional destinations such as the US, the EU, and the Middle East. This shift in trade policy has become more significant in the aftermath of the global financial crisis, with the Asian economies playing a key role in the emerging new economic power structure.

ASEAN has a membership of 10 countries namely Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. ASEAN was formed in 1967 with five member countries and now they have formed a free trade area among themselves with reduced tariffs for trade in goods and liberalized measures for free flow of services and investments. The ASEAN has a population of about 577 million and a combined GDP of almost \$1,505 billion. The average trade-to-GDP ratio of the ASEAN stands above 145 percent in contrast to less than 45 percent for India. Whereas India has an average tariff rate of around 34 percent for agriculture and 11.50 percent for goods, the corresponding average rates in the Asean region are 13 and 7.50 percentages.

**Briefly describe the evolution of the FTA with the ASEAN:-**

At the first ASEAN-India Summit held in 2002, it was decided to conclude an FTA (Free Trade Agreement) within 10 years timeframe. Subsequently, a 'Framework Agreement' on Comprehensive Economic Cooperation between ASEAN and India was signed in 2003. This covered FTA in Goods, Services and Investment. Accordingly, ASEAN-India Trade Negotiating Committee was constituted and protracted negotiations were held. On 13th August 2009, Trade in Goods Agreement was signed by India and the ASEAN in Bangkok. The Trade in Goods Agreement comes into force from 1st January 2010. Negotiations on Services and Investment are underway and are targeted to be concluded by August 2010. Indo-Asean trade has been growing at a compound annual growth rate of 27 percent in

the recent years. India's current bilateral trade with the ASEAN bloc is worth \$40 billion per annum. This is expected to increase to \$50 billion within a year.

### **What are the expected benefits of the FTA?**

India and the Asean produce and compete in many common product categories and this engenders competition. There will be prospects for intra-industry trade – mutual trade within one sectoral value chain such as electronics, automotive, garments etc. This would result in product differentiation and economies of scale. There is great potential for India in enhancing exports in the organic /inorganic chemicals, agriculture and dairy food, miscellaneous products of iron and steel, copper, aluminum, zinc and precious stones, pearls etc. India sees great potential in software and information technology services exports to the Asean soon after an agreement on services and investment is concluded.

### **Why regional FTAs are pursued by countries despite the existence of the WTO?**

Multilateral trade negotiations under the auspices of the WTO are found difficult to conclude because of differences of negotiating stands among the participating members. The Doha Round of trade negotiations which commenced in 2001 are still not finalized and differences on pending issues such as trade in agriculture, non-agricultural market access, subsidies and duties make the talks still inconclusive. This has prompted countries to go for regional trade agreements with a similar group of countries for earlier conclusion of trade talks. India has long-standing cultural affinity with ASEAN countries. Apart from geographical proximity, there is also parity of economic development between India and the ASEAN.

### **How are tariff concessions, eliminations or protection envisaged in the FTA?**

The FTA in goods envisages tariff elimination, tariff concession and tariff protection depending on the goods which are categorized into Normal track goods 1 &2, Sensitive track goods, Special products and Excluded list or the negative list. Import tariffs on the goods in the normal track -1 will be reduced to zero within the stipulated time of three to eight years. Import tariffs on the goods in the normal track -2 will be reduced to zero within a period of six to eleven years. Tariffs in the case of sensitive track goods will

be reduced to a minimum of 5 / 4.50 percent but will not be completely eliminated, and also within a longer timeframe of six to fourteen years. Under special products category, there are five commodities – crude palm oil, refined palm oil, coffee, tea and pepper. The present high import tariffs on these items will be gradually reduced to about 50 percent by 2019. No tariff reduction will be considered for the goods in the excluded list or the negative list. India has listed 12169 commodities on which import duties will be eliminated/reduced/retained under various tracks.

**What is the mechanism to protect the domestic sectors likely to be affected by the FTA?**

India has been allowed to exclude 489 items of commodities from the list tariff concessions. The import tariffs on these commodities prevalent as on 2007 will be retained. There was intense lobbying by the domestic industry and the various state governments for excluding the items for protecting the domestic industry and agriculture from importation of similar items from the Asean countries. The sensitive lists includes some 590 items on which import tariffs will be reduced on a longer time frame and a lower tariff rate will be maintained after the end period. Thus the sensitive and vulnerable sectors are protected by way of negative, sensitive and special products categories. The negative or excluded list includes 303 agricultural products like natural rubber, cardamom, cashew kernel, coconut, nutmeg, turmeric, vanilla, wheat, and most fish items which are available in Indian shores. This in effect addresses the concerns of the southern states - Kerala, Karnataka and Tamil Nadu - that import surge from the Asean will affect the farmers. Also, several products from the auto components (50 items), textiles (81 items), plastics and chemicals (17 items) have been safeguarded by including them in the negative list. The highly sensitive list – otherwise called ‘special products category’ – includes palm oil, tea, coffee and pepper. At present the import tariffs on these items range from 70 to 100 percent. This will be reduced to a lower range of 37.5 to 50 percent by 2019.

**What are the reasons for the opposition to the FTA and how is it proposed to be resolved by the govt.?**

The FTA with ASEAN created a lot of opposition from state governments, peasant organizations, and political parties for its implications for the domestic plantation sector, fisheries, textiles and light manufacturing goods industry. It is concerned that due to the lowering of tariff levels there

will be a surge in imports from the comparatively low-cost Asean economies. Even though negative list items will continue to have present tariff levels, there is the possibility of substitute or near-substitute items which can be imported at lower tariffs. Thus it is stated by the opponents of the treaty that even though main fishery items available in India are in the negative list, import of other fishery items will depress the prices in general. Coconut is in the negative list, but import of palm oil will be liberalized. So also, it is pointed out that reduction in the tariffs of the highly sensitive special products, though gradual and on a longer time span, will price out the domestically produced commodities.

The implications are stated to be severe owing to low levels of productivity and comparatively high cost of production in India. Per hectare production of pepper in Vietnam and Indonesia is three to five times higher than that in Kerala. So is the case with coffee production. This will lead to increase in imports and fluctuation of prices. This will have social implications owing to the impact on the plantation workers.

The government has already announced plans to increase productivity of the agricultural and plantation sectors such as coconut, tea and coffee. Within the next 10 years these programs are to be implemented. The govt. promises financial and technical support to the states affected by the free trade regime. There are strict stipulations of 'Rules of Origin' that will avoid routing of products made in other countries through ASEAN. A product would be counted for import from a particular country if there is at least 35 per cent value addition in that country.

The FTA also provides for bilateral safeguard mechanism to address sudden surge in imports. If surge in imports hurts a domestic industry, safeguard measures including safeguard duties may be imposed by the govt. for a period of up to four years.

## **Conclusion**

In an increasingly globalized era, the governments are eager to conclude trade arrangements at regional levels seeking more trade opportunities. China has already concluded a trade arrangement with the ASEAN and this prompted the govt. to form an FTA with the ASEAN at the earliest. It is expected that in the long term the FTA will be to the mutual advantage of the countries involved.





## India – Asean trade (\$ million)

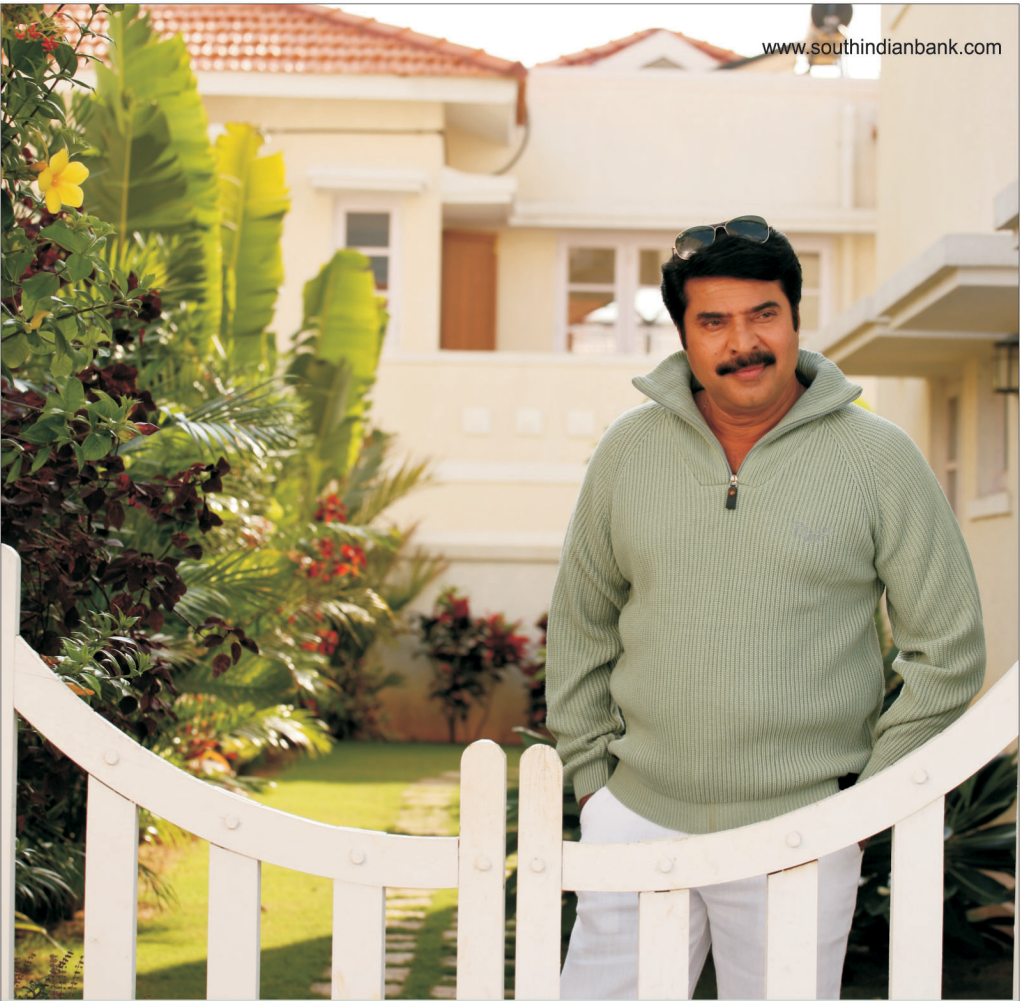
Country	Exports				Imports			
	2006 -07	2007 -08	% Growth	2008-09 (Apr-Dec)	2006 -07	2007 -08	% Growth	2008-09 (Apr-Dec)
Brunei	8.30	10.45	25.93	13.55	285.01	225.81	-20.77	268.53
Cambodia	52.12	53.45	2.55	35.94	1.58	2.87	81.84	2.25
Indonesia	2,026.50	2,160.18	6.60	1816.07	4,165.82	4,826.06	15.84	5,042.00
Laos	2.38	3.83	61.27	3.62	0.36	0.11	-68.36	0.48
Malaysia	1,303.29	2,568.84	97.10	2027.95	5,290.67	6,007.84	13.56	5,863.19
Myanmar	139.95	185.43	32.50	173.28	781.93	809.94	3.58	688.59
Philippines	582.09	618.95	6.33	574.22	167.25	204.74	22.42	168.36
Singapore	6,064.19	7,371.15	21.55	6556.70	5,485.26	8,121.61	48.06	5,823.39
Thailand	1,443.22	1,808.79	25.33	1441.31	1,744.25	2,302.12	31.98	2,066.13
Vietnam	981.84	1,603.16	63.28	1134.45	167.52	173.47	3.55	315.77
<b>Total</b>	<b>12,603.86</b>	<b>16,384.25</b>	<b>29.99</b>	<b>13,777.08</b>	<b>18,089.64</b>	<b>22,674.58</b>	<b>25.35</b>	<b>20,238.69</b>

### Schedule of Tariff Commitments by India under AIFTA

**Commodities are classified into the following categories for tariff elimination, tariff concession and tariff protection**

<b>Normal Track 1</b>	Import tariffs on the commodities under this category will be reduced to zero within a period of three to eight years
<b>Normal Track 2</b>	Import tariffs on the commodities under this category will be reduced to zero within a period of six to eleven years
<b>Sensitive Track</b>	Import tariffs will be gradually reduced to a very low level of 5 / 4.5 percent within a period of six to fourteen years
<b>Special Products</b>	Import tariffs on Palm oil, coffee, tea and pepper will be reduced from the present higher levels of 70-100 percent to 37.5-50 percent by the year 2019
<b>Excluded or Negative List</b>	No tariff reduction is envisaged and 2007 MFN tariff levels will be retained; Market access reviews will be held every year

*Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in*



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