

The India ASEAN Free Trade Agreement (AIFTA) – A Critical Appraisal

Chumki Handique

MA, M.Phil, Dibrugarh University

E-mail-handiquechumki18@gmail.com

Abstract-With the ASEAN-India Free Trade Agreement coming into effect on 2010, the ASEAN nations and India agreed upon significant reduction in intra-regional tariffs in order to expand their economic ties. The Free trade agreement however evoked mixed results for India with a few sector being threatened. This study attempts to make a preliminary assessment of the free trade agreement. The specific objectives of the study are firstly to evaluate the benefits and challenges of the FTA to India. Secondly, a comparative study of the growth of trade between India and ASEAN is made during pre-FTA and post-FTA period.

Keywords-exports, free trade area, imports, trade

1. Introduction-

The Association of Southeast Asian Nations (ASEAN), is a regional organization that came into being in the year 1967. The ten member countries of the ASEAN group are Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia. The vision behind the formation of this organisation was to bring together neighbouring nations and to promote economic, political, and security cooperation among them.

India's Relations with ASEAN

Starting about decade ago, the partnership between India and the Association of South East Asian Nations (ASEAN) has been developing an impressively rapid pace. India became a sectoral dialogue partner of ASEAN in 1992. Following that, ASEAN invited India to become its full dialogue partner in 1995 (in the fifth ASEAN Summit held in Bangkok), and the member of the ASEAN Regional Forum (ARF) in 1996. Since 2002, India and ASEAN have been involved in summit-meetings annually.

Why Free Trade Area (FTA) in ASEAN?

A Free Trade Agreement is an agreement between two or more countries to reduce or eliminate trade barriers like tariff barriers (like taxes) and non-tariff barriers (like regulatory laws).

In the year 1997, ASEAN countries was faced with a financial crisis (called the 'ASEAN crisis'), which initiated in Thailand and eventually spread to the other parts. As a solution to overcome the financial crisis, the ASEAN member states decided to further integrate their economies. Eventually, in the year 1992, all the members created the ASEAN Free Trade Area. The major goal behind creating the FTA was to create a single market, increase intra-ASEAN trade and investments, and attract foreign investment.

2. Review of Literature-

Ajit Kumar Jha and SanjoySaha (2011), in their study, *'Intra-Industry Trade in ASEAN-5: An Overall and Country-Specific Study'*, studied the trade patterns of ASEAN-5 since the implementation of AFTA (ASEAN Free Trade Area) in 1992. The study also analysed the impact of 'Asian crisis' on the pattern of overall as well as country specific intra and extra-industry trade. The research question underlying their study is to study the impact of Asian-crisis and formation of AFTA upon the pattern of intra an extra-industry trade.

The study concludes that there has not been any major impact of AFTA on the overall trading pattern of ASEAN-5 countries since the overall intra-industry trade reveals only marginal improvement after the formation of AFTA. In case of the total intra and extra-trade in these countries, it is found that trade was more or less stable during the period 1995-2001 and thereafter followed an increasing trend. All these indicated minimal impact of the AFTA agreement upon trade in these countries

Partha Pratim Pal and Mitali Dasgupta, (2009). The title of their study was *'The ASEAN-India Free Trade Agreement: An Assessment'* in which they made a preliminary evaluation of the of the ASEAN-India Free trade agreement with special reference to the plantation sector, the marine products industry and the manufacturing industries. This article also studied the tariff schedule of India. Their concluding observations pointed out that there exists inter-sectoral trade-offs as a result of the formation of AFTA and in order to ensure a total increase in welfare, government intervention is necessary for redistribution of some of the increased wealth from the gainers to the losers. By looking at the production structure of the ASEAN countries, it has been found that AFTA is likely to negatively affect the following sectors- agricultural sector in India, particularly plantation sectors like tea, spices, coffee and rubber , marine products, textiles and garments, and the auto components industry. Contrary to that, some segments of the manufacturing sector seem to have positive impact from the AFTA. Finally, their study concluded that in an increasingly integrated world, one should be careful about signing FTAs and given the inter-sectoral trade-offs arising out of FTAs, the role of government in such countries becomes immensely important.

Ranajoy Bhattacharya and Avijit Mandal. (2010), in their work, *'Estimating the impact of Indo-ASEAN Free Trade Agreement on India's Balance of Trade'*, analysed the probable impacts of AFTA (ASEAN-India Free Trade Agreement) upon the Balance of Trade (BOT) of India. They considered bilateral trade flows between India and ASEAN-6 countries for this study by using the pooled time series cross section data from 1989 to 2006 for the six countries in the ASEAN 6. First, they estimated the tariff elasticity of India's bilateral exports and imports with the ASEAN-6 countries for the time period 1989-2006. The conclusion of this study indicated that AFTA will have an impact on India's imports (which are likely to rise significantly) but will have no impact on India's exports.

C Veermani and G. S. Saini (2011), in their combined research titled *"Impact of ASEAN-India FTA in the plantation Sector: a Quantitative Assessment"* made a quantitative assessment on the probable impact of AFTA(ASEAN-India Free Trade Agreement) on Plantation sector of India. They considered the three sectors- tea, coffee and pepper plantation which has been categorized as "special products" in India'. They used the SMART model and gravity model for estimation of trade creation and trade diversion effects created by tariff reduction on plantation sector.

The results of SMART model indicates that trade creation would be highest in case of tea followed by coffee and pepper. The results of gravity model indicates that, imports would be higher in coffee followed by tea and pepper. Overall results revealed that trade creation would improve the welfare in

India as high cost production will be replaced by new imports and due to fall in domestic prices, there would be gain in consumer surplus. The gain in consumer surplus would then outweigh the loss in tariff revenue leading to net welfare gain. Finally, they suggested that government should provide structural arrangements to the farmers so that the cost of production is consistent any change in the price signals.

Going through some of the existing literature, it is clear that the FTA evoked mixed results in case of intra-industry trade, inter-industry trade and commodity and industry specific trade too.

3. Objectives and methodology-

The study tries to address two specific objectives. Firstly, a preliminary assessment of the AIFTA wherein the benefits and challenges to India is evaluated. Secondly, a comparative study of the growth in trade between India and ASEAN is studied during two periods categorised as pre-FTA and post-FTA. The time period of the study is 2001 to 2018. The pre-FTA period is considered from 2001 to 2009 and the post-FTA period is considered from 2010 to 2018.

The study is based on secondary data and is descriptive in nature. Data is extracted from trade map database, World Bank database and various government reports and publications. For assessment of the objectives, simple statistical tools like percentages, compound annual growth rates etc. is calculated and tables are used to draw the comparisons.

Section 1

An Assessment of the India- ASEAN Free Trade Agreement

India signed a Free Trade Agreement (FTA) with the ASEAN members in Thailand In August 2009. The major objective behind the same was to promote social progress, cultural development, regional peace and stability, mutual assistance and to explore all avenues for better exploitation of geographical proximity and natural endowments among themselves. It was also to be used as means of escape from dependence on the more prosperous global markets (Kahler, 1995).

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. According to the council on foreign relations data, intra-ASEAN trade as a share of the bloc's overall trade grew from about 19 percent in 1993 to 23 percent in 2017. Within ASEAN, about more than 90 percent of goods are traded with no tariffs. The two sides expect bilateral trade to increase to US\$ 100 billion by 2015, and US\$ 200 billion within a decade.

By the time it is fully implemented, the AIFTA will eliminate tariffs on more than 90 per cent of all trade—roughly 4,000 products—between ASEAN and India. The two parties agreed to allow between 7 per cent and 9 per cent of products to be excluded from any tariff cut commitments. Tariff reductions for all “normal track” goods will be completed by December 2016, while some of the newer ASEAN countries will be granted until the end of 2024 to complete their tariff reductions on “sensitive track” products. The tariff liberalization schedule is to begin in January 2010 and is to be fully implemented by 2013 and 2016 in respect of the items on the two ‘normal tracks’.

The Economic Perspective-

The economic ties between the two regions are the pillars on which the partnership rests. In this context, the enforcement of the ‘Look East Policy’ have initially facilitated the relations in goods and investments. This relation then flourished even further after the formation of the India ASEAN Free Trade Area as it was more comprehensive than before and included more sectors. The ASEAN

nations and India together consist one of the largest economic regions with a total population of about 1.8 billion. ASEAN is currently India's fourth largest trading partner, accounting for 10.2 percent of India's total trade. India, on the other hand, is ASEAN's 7th largest trading partner. India's service-oriented economy perfectly complements the manufacturing-based economies of the ASEAN countries.

Advantages for India-

The India ASEAN Free Trade Agreement (AIFTA) has the potential to result in significant benefit in strengthening the ties. It is always believed that not being a part of any regional trade blocs or FTAs creates disadvantage for countries as they are excluded from the market shares. For, India, it was earlier feared that not being part of such agreements like Asia Pacific Economic Cooperation (APEC), the Trans Pacific Partnership (TPP) was a disadvantage especially for industries like medicine and pharmaceuticals, textiles etc. Now, as India signed the FTA with ASEAN, it is likely to facilitate better access to consumer markets and also complement India's pre-existing FTAs. The growth in trade after the formation of AIFTA is discussed in section 2 of the paper.

Again, the FTA being signed also in case of services, will provide added advantage to India in case of services in which India have comparative advantage over other countries. India has advantages in Information Technology related services, healthcare services and educational services which would be benefitted from the AIFTA.

Challenges for India-

Despite the fact that the AIFTA has helped both the partners in many ways, the benefit that India has been receiving from the FTA is way less than that of ASEAN. The ASEAN nations are way too advanced in manufacturing/production of certain goods. With the signing of the FTA in goods, Indian market have faced tough competition as the goods from the ASEAN countries are cheaper and better in quality. For example- Rubber imports from Malaysia have posed a threat on the rubber plantations of Kerala because imported rubber was available at a lower price in the markets.

The other drawback of the agreement is that, ever since the signing of the FTA, the trade imbalance over the years have been in favour of ASEAN whereas India has an expanding trade deficit with the ASEAN according to trade statistics. This has hurt India's current account deficit and thus, hurt India as a whole fiscally.

It is known that the agricultural sector of India faces issues like lack of investment, low productivity, obsolete technology and fragmented landholdings. The sector will suffer even more as now, the Indian market will be flooded with products from other nations which are comparatively cheaper. Also, the industrial sector of India is still in a nascent stage. In the context of goods, India has already given up on a three tier tariff reduction proposal which would offer different coverage for ASEAN, Japan and South Korea and much lower level of tariff reduction coverage for Australia, China and New Zealand.

It is seen that the benefits that India has been receiving is quite less as compared to the challenges posed by the agreement. Thus, to conclude, the FTA will basically put a big challenge to the 'Make in India' initiative. For example, the granting of tariff free access to the imported goods, which have already flooded the Indian markets will further aggravate the deficit situation and add to increase the budget deficit.

Section 2

India-ASEAN trade profile pre-AIFTA

The pre-AIFTA period here is considered from 2001 to 2009. Table 1 shows India's merchandize exports to ASEAN and to the world. India's export to the world increased from USD 44 billion in 2001 to USD 177 billion in 2009 with a CAGR of around 17%. India's exports to ASEAN economies have increased from USD 3 billion in 2001 to USD 18 billion in 2009. During the study period i.e. the pre-AIFTA period (2001 to 2009), India's exports to ASEAN have registered a CAGR of around 22%.

Year	India's exports to ASEAN	Growth (%)	India's exports to world	Growth (%)
2001	3	NA	44	NA
2002	5	36	50	14
2003	5	13	59	18
2004	8	49	76	28
2005	10	36	100	32
2006	12	20	121	21
2007	14	12	146	20
2008	19	41	182	25
2009	18	-8	177	-3
CAGR (2001-2009)	22%		17%	
Source- Trade Map database				

Table 2 shows India's merchandize exports to world and to ASEAN. Exports to world have increased from USD 44 billion in 2001 to USD 177 billion in 2009 with a CAGR of around 17%. India's exports to ASEAN economies have increased from USD 3 billion in 2001 to USD 18 billion in 2009. During 2001 and 2009 i.e. the pre-AIFTA period, India's exports to ASEAN have registered a CAGR of around 22%.

Year	India's imports from ASEAN	Growth (%)	India's imports from world	Growth (%)
2001	4	NA	51	NA
2002	5	11	57	13

2003	7	39	72	26
2004	9	28	99	37
2005	11	24	141	42
2006	16	53	178	27
2007	21	29	219	23
2008	27	27	316	44
2009	24	-10	266	-16
CAGR(2001-2009)	22%		20%	
Source- Trade Map database				

Table 3 depicts India's total merchandise trade with ASEAN and with the world. Between 2001 and 2009, India's total merchandise trade with world has increased significantly from USD 95 billion in 2001 to USD 443 billion in 2009 with a CAGR of around 19%. India's total trade with ASEAN economies has increased from USD 8 billion in 2001 to USD 42 billion in 2009. India's total trade with ASEAN has exhibited a CAGR of around 20% during the pre-AIFTA period.

Table 3-India's total trade with ASEAN economies vis-à-vis World (in USD Billion)				
Year	India's total trade with ASEAN	Growth (%)	India's total trade with world	Growth (%)
2001	8	NA	95	NA
2002	9	22	108	14
2003	12	26	132	23
2004	16	37	175	33
2005	21	30	241	38
2006	29	37	299	24
2007	35	22	365	22
2008	46	32	498	36
2009	42	-9	443	-11
CAGR (2001-2009)	20%		19%	
Source- Trade Map database				

India-ASEAN trade profile post-AIFTA

The post-AIFTA regime is considered from 2010 to 2018 in the study since the Indo-ASEAN FTA came into effect in the year 2010. Over these years, India's merchandise exports to world have increased from USD 220 billion in 2010 to USD 323 billion in 2018 with a CAGR of around 4% (see table 4). India's exports to ASEAN economies increased from USD 23 billion in 2010 to USD 36

billion in 2018. During 2010 and 2018, India’s exports to ASEAN have exhibited a CAGR of around 5%.

Table-4 India’s exports to ASEAN economies vis-à-vis World (in USD Billion)				
Year	India's exports to ASEAN	Growth (%)	India's exports to world	Growth (%)
2010	23	NA	220	NA
2011	34	50	301	37
2012	32	-6	290	-4
2013	38	17	337	16
2014	31	-17	318	-6
2015	26	-16	264	-17
2016	26	0	260	-2
2017	35	34	296	14
2018	36	2	323	9
CAGR (2010-2018)	5%		4%	
Source- Trade Map database				

Table 5 shows India’s imports from ASEAN economies and from rest of the world. India’s imports from ASEAN have also shown significant changes during the reference years. India’s imports from ASEAN economies increased from USD 30 billion in 2010 to USD 57 billion in 2018. During 2010 and 2018, India’s imports from ASEAN have exhibited a CAGR of around 8%.

Table 5- India’s imports from ASEAN economies vis-à-vis World (in USD Billion)				
Year	India's imports from ASEAN	Growth (%)	India's imports from world	Growth (%)
2010	30	NA	350	NA
2011	40	36	462	32
2012	43	6	489	6
2013	42	-1	466	-5
2014	44	5	459	-1
2015	42	-7	391	-15
2016	38	-8	357	-9
2017	45	19	444	24
2018	57	26	508	14
CAGR				

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(2010-2018)	8%	4%
Source- Trade Map database		

As seen from table 6, between 2010 and 2018, India's total merchandise trade with world has increased significantly from USD 570 billion in 2010 to USD 831 billion in 2018 with a CAGR of around 4%. India's total trade with ASEAN economies has increased from USD 53 billion in 2010 to USD 93 billion in 2018. India's total trade with ASEAN has exhibited a CAGR of around 7%.

Table 6- India's total trade with ASEAN economies vis-à-vis World (in USD Billion)				
Year	India's total trade with ASEAN	Growth (%)	India's total trade with world	Growth (%)
2010	53	NA	570	NA
2011	75	42	764	34
2012	75	0	779	2
2013	80	7	803	3
2014	76	-6	777	-3
2015	68	-10	655	-16
2016	65	-5	617	-6
2017	81	25	740	20
2018	93	16	831	12
CAGR (2010-2018)	7%		4%	
Source- Trade Map database				

Conclusion-

While there are many benefits to India from the signing of the ASEAN-India FTA, there is also concern in India that the agreement seems to have several negative impact. As a result of the reduction in tariff, India has not experienced much benefit in terms of increase in market access as compared to ASEAN countries. Moreover, India's trade deficit has been widening with ASEAN over the past years with the implementation of the agreement. One of the reasons for the growing deficit is the low utilisation of the FTA route by Indian exporters to ASEAN countries because of some difficulties faced in negotiating the rules. There is thus a need for maintaining cordiality with ASEAN and utilizing the routes to enhance trade. In case of trade between India and ASEAN during the pre-AIFTA period, exports to and imports from ASEAN to India have increased significantly. During the post-AIFTA period also trade figures are showing increasing trend, but, the rate of increase post-AIFTA is less than that of the pre-AIFTA period. The reason behind the same can be attributed to the negative impacts that the agreement has caused to India's markets which are discussed in section 1 of this study.

To conclude, it is important for India to analyse its FTA with ASEAN more closely, as it has the potential to result in significant benefits in many fronts — economic, political and geostrategic.

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