印度-東協貿易的軌跡：超越自由貿易協定

聖古普塔
印度查謨大學經濟學教授

德巴喜斯・查卡拉鮑迪
助理教授
印度外貿研究所

普瑞坦・班那吉
貿易與國際政策組組長
印度工業總會

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中文摘要

一般而言，截至 2003 年止，印度都遵循多邊途徑促進貿易，但其後杜哈回合（Doha Round）談判牛步化導致印度貿易政策轉向區域貿易協定（RTAs）。現在印度已與數個發展中國家與貿易集團維持優惠貿易關係。在印度RTA議程裡東協國家佔有特別地位，主要原因有三。其一，雖然印度在亞洲已與數國進行RTA談判，但就東協成員的數目來看東協所涉及的貿易自由化遠比其他談判對象來得廣泛。其二，透過東協印度政府所採行的「東望政策」（Look East Policy）可發揮極致，達到發展內陸東北地區的目標。其三，一旦與東協的RTA談判成功地含括商品、服務業與投資

合作，印度就可與其他的發展中國家的貿易集團如南錐共同體（MERCOSUR）與南部非洲關稅同盟（Southern African Customs Union, SACU）簽訂類似的協定。

本文主旨是試圖解析印度-東協FTA談判的來龍去脈。由於印度與東協都涉入多邊貿易集團，雙方對後FTA時期真正市場開放之實現皆非常謹慎小心。

The Trajectory of the Indo-ASEAN Trade: FTA and Beyond[1]

Debashis Chakraborty[2]
Pritam Banerjee[3]
Dipankar Sengupta[4]

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Abstract

India generally followed the multilateral route for trade promotion upto 2003, but in the subsequent period the slow progress of the Doha Round Negotiations motivated it to go for regional trade agreements (RTAs). Presently the country is engaged in preferential trade relationship with several developing countries and trade blocs. In India's RTA agenda ASEAN countries hold a special position owing to a number of reasons. First, while India has been involved in several RTA negotiations in Asia, ASEAN involves much broader trade liberalization, given the

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1 Views expressed by the authors in the paper are personal.

2 Assistant Professor, Indian Institute of Foreign Trade, New Delhi. E-mail: debchakra@gmail.com.

3 Senior Director, Public Policy-South Asia, DHL Deutsche Post, prit.banerjee@gmail.com.

4 Professor, University of Jammu, Jammu. E-mail: dsen68@gmail.com

number of countries associated with this initiative. Secondly, through ASEAN the 'Look East Policy' adopted by the Indian government can be best utilized to develop the land-locked Northeast region of India. Thirdly, once the ASEAN negotiation covering merchandise products, services and investment collaboration is concluded successfully, India can enter into similar agreements with other developing country trade blocs like MERCOSUR and SACU. In this background, the present analysis attempts to understand the developments in the Indo-ASEAN FTA negotiations. The analysis notes that both India and ASEAN have been involved in multiple trade blocs, as a result of which both sides were weary of the actual market access to be realized in the post-FTA period. Understandably the negotiations for liberalizing merchandise trade continued for a long time with both sides fighting over 'negative list' and 'sensitive list', ultimately coming into effect from January 2010 onwards. However, the success of the merchandise trade reform has so far exerted limited effect on the negotiations for liberalizing trade in services. It is observed that several key ASEAN countries are concerned over India's expertise in key service sectors in general and professional services in particular, which force them to proceed slowly in the negotiations. In addition, there is considerable scope to enhance investment collaboration between ASEAN and India.

The current paper argues that India on one hand needs to develop key infrastructure linkages with ASEAN countries for export promotion, and enhance the competitiveness of the economy on the other to withstand the effects of cheaper import inflow. It notes that without realization of trade benefits, frictions over anti-dumping measures, rules of origin (ROO) issues etc. might continue to function as a backward pull in the system.

1. Introduction: Understanding India's Compulsions

Over the last decade, India has considerably strengthened its position in the world forum. The outward-orientation of the country has increased continuously, while the growing domestic market in general and the service sector in particular has played a crucial role in realizing an average annual growth rate of around 8 percent for the last couple of years, barring the recession period. The present scenario is in stark contrast with the pre-reform policies being followed by the country. Since initiating the economic reform policies in 1991, the practice of allocating economic resources largely through a system of license and permits has been discarded, and the move towards outward looking market economy has paid rich dividends.

Shortly after the first liberalization drive, India witnessed an export boom over 1993-96, marking its transition from being an economy driven by government expenditure and investment to that being driven by exports. While India's merchandise export growth during 1989-92 was 7.49 percent, the same increased to 14.19 percent during 1993-96. However, in the following period, especially in the wake of the East Asian crisis, India's annual export growth rate declined to 2.64 percent during 1997-99. The increased initiations of anti-dumping investigations and imposition of environmental standards on Indian exports contributed to the scenario further. Understandably this trade downturn led to increased focus on the ongoing WTO negotiations, as reflected from Indian's hardening stance at the Seattle Ministerial (1999), Doha Ministerial (2001) and the Cancun Ministerial (2003) meetings of the multilateral body (Chakraborty and Sengupta, 2005). It also strongly underlined the need to adopt regional trade agreements (RTAs) route for trade promotion (Chakraborty and Khan, 2008).

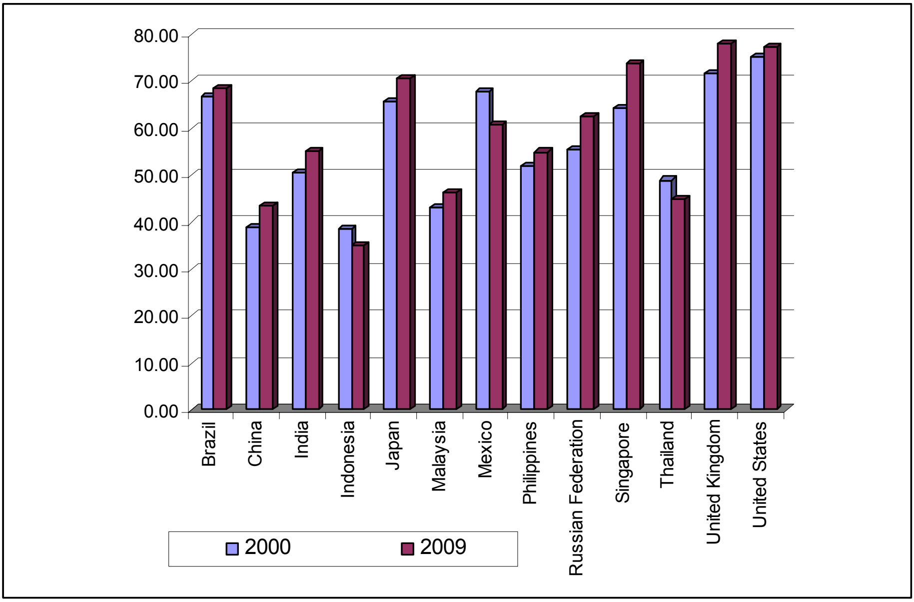
CUTS (2008) noted that the decade between 1996 and 2005 characterized a period when the triple impact of India's external liberalization, domestic economic reforms and the rise of a global market for skilled services facilitated by information technology fully emerged. The WTO discussions on Global E-Commerce fueled this trend. The relatively rapid growth of services in the economy, especially in the external sector, was also facilitated by the fact that services enterprises required lesser capital for start-up and was less dependent on the India's relatively poor infrastructure (i.e., roads, electricity supply and logistical support) as compared to manufacturing sector. The growth in services sector has been led by the massive demand for Indian services exports, especially in the IT and ITES category, which have contributed 25 percent of total export revenue in 2007. This is in stark contrast with the Chinese experience, which has a far higher proportion of its economy explained by manufacturing, and has emerged as the global hub for labour intensive production. Clearly China's better performance in terms of infrastructure creation has facilitated entrepreneurship in the manufacturing sector.

An important feature of India's service sector led growth trajectory in recent years is the emergence of 'jobless growth' phenomenon. While the share of agriculture in the Indian economy has declined considerably over the last decade, the share of employment in the primary sector has remained relatively unchanged (Chakraborty, 2003a). On the other hand, the increasing share of services in the GDP has not been accompanied by a corresponding increase in employment share of this sector during 1990s.

As a result, India's economic growth is presently driven by a dynamic service sector, which given India's relatively low *per capita* income is an oddity. Figure 1 shows the transition in contribution of the service sector to the GDP in India, vis-à-vis the same in other developed and developing countries. In general the share of the service sector is found to be increasing across countries. An interesting observation deserves mention here - in Southeast Asian countries like Indonesia and Thailand, the contribution to GDP has declined in recent period as compared to the corresponding 2000 figure.

It is often argued that at the WTO negotiating forums India becomes a prisoner of its dismal economic performance, especially in the area of agriculture and small-scale industries. In particular, these segments have often raised their voices against cheaper imports coming from RTA partner countries (e.g. Sri Lanka). Similar concerns raised against from low-cost labour intensive imports from Association of Southeast Asian Nations (ASEAN) partners have also been witnessed.

Figure 1: Service as Percentage of GDP



Source: Constructed by the authors from World Development Indicators database

India's negotiating positions at multilateral or regional forums need to be viewed in the light of several concerns faced by Indian policymakers. While the country demands market access in trade partners, especially in the area of trade in services, it also seeks to avoid drastic and painful readjustments, especially in agriculture. Indeed, India happens to be an incremental reformer. Indian policymakers are well aware of the fact that granting access in certain markets to foreign players will exhort tremendous impact on the Indian economy, enhancing its productivity and efficiency. However, a democratic polity cannot entirely ignore populist and protectionist pressures (CUTS, 2008). As a result, India's attempts to go for trade expansion through RTAs also face slower progress.

The current analysis attempts to understand the dynamics involved in one of India's major Asian RTA initiative, namely, the proposed free trade agreement (FTA) with the ASEAN. The Indo-ASEAN FTA is of particular importance for India. While the country has been involved in several other regional negotiations in Asia (e.g. Bay of Bengal Initiative for MultiSectoral Technical and Economic Cooperation Free Trade Area - BIMSTEC FTA) and entered into the *South Asian Free Trade Area* **(**SAFTA), ASEAN involves much broader trade liberalization, given the number of countries associated with this initiative. Moreover, through ASEAN the 'Look East Policy' can be best utilized to develop the land-locked Northeast region of India (DONER, 2007). Once the ASEAN negotiation covering merchandise, services and investment is concluded successfully, India can enter into similar agreements with other developing country trade blocs like MERCOSUR and SACU. Given this background, there is a need to closely monitor the developments under Indo-ASEAN FTA negotiations.

The present analysis is organized along the following lines. First the negotiations for entering into the FTA and the roadblocks are underlined. The merchandise trade issues involving India and ASEAN are discussed next followed by the service trade related concerns and the recent infrastructure initiatives. A critical evaluation of the FTA is performed afterwards, followed by the policy conclusions.

2. Bumpy ride to the Indo-ASEAN FTA

Since inception of WTO, India preferred the multilateral trade liberalization route for obtaining greater market access and did not follow any focused RTA strategy (Chakraborty, 2003b). However slow export growth rate in the post 2001 recession period, and bumpy progress of multilateral market access reform under Doha negotiations Ministerial (2001), forced India to go for preferential trade agreements (PTAs). Presently India is engaged in a number of PTAs, e.g. Indo–Sri Lanka FTA, SAFTA, India–Singapore Comprehensive Economic Cooperation Agreement (CECA), India–Malaysia Comprehensive Economic Cooperation Agreement (CECA), Indo–Thai FTA, India-South Korea Comprehensive Economic Partnership Agreement (CECA), India-Japan CEPA, Indo–Chile PTA. Negotiations on the Indo–Gulf Cooperation Council (GCC) FTA, Indo–MERCOSUR PTA, Indo-SACU PTA and the BIMSTEC FTA are currently on. Among all the above-mentioned blocs, India's bid to engage with Asia-Pacific Economic Cooperation (APEC) countries is particularly significant. India in late nineties attempted to enter in a RTA with APEC, but its bid was rejected. India at present is trying to enter into partnership with many APEC member countries (including ASEAN, Australia, Japan, Singapore and

Thailand), which includes both capital and labour intensive economies (Chaisse, 2011). Several studies have also projected potential gains for India from entering into merchandise trade ties (Bhattacharya *et al*., 1995; Yong, 2005; Sen *et al*., 2004; Sinha Roy, 2004) as well as services cooperation agreements with ASEAN (Karmakar, 2005). In addition, entering into pan-Asian RTAs linking ASEAN, India, Japan, Korea and China has also been proposed (Kumar, 2005; Cheow, 2005).

However, the response of key domestic players towards India's post-2003 RTA approach has not been uniformly positive. In particular, several industries have questioned the wisdom of signing an FTA with either Thailand or ASEAN. The widely held opinion in secondary sector is that most ASEAN economies are India's competitors rather than 'natural partners', given the similarity in factor endowments. It has also been argued that these countries, barring the exception of Singapore, have not reached a diversified industrial structure so as to support a high degree of intra-industry trade across all sectors (Chakraborty and Sengupta, 2010). In addition, the industry were concerned over the actual access in the ASEAN market, given the multiple bloc memberships (Australia, China, US etc.) strategy perused by ASEAN countries, which dilutes India's access in their markets. A similar view was held by the ASEAN countries, who felt concerned with the tariff and non-tariff barriers in India and adopted a hard stance for extracting the best offer from it. These mutual threat perceptions considerably affected the pace of Indo-ASEAN FTA negotiations, as noted in the following.[5]

India became a sectoral dialogue partner of ASEAN in 1992, later emerging as full dialogue partner at the Fifth ASEAN Summit in 1995. In 1996, it joined ASEAN Regional Forum (ARF) as a member. In November 2002, the First ASEAN–India summit was held in Phnom Penh and the Framework Agreement for establishing an FTA was signed during the second ASEAN–India summit in Bali in October 2003. The FTA intended to eliminate tariff on a range of products by 2015 (normal track) and lower tariff to 5 percent by 2018 (sensitive list). The FTA in merchandise was negotiated first, to be followed by an FTA in services and an investment agreement. Responding to the practical experience of the exporters, the FTA discussion also focused on trade facilitation measures (e.g. mutual recognition agreements and removal of non-tariff measures).

Since mid-2005, however, the negotiations process hit a roadblock, regarding rules of origin (ROO) norms determination. ASEAN preferred adoption of only 40 per cent value addition criteria, while India wanted to follow both Change in Tariff Headings (CTH) and 40 per cent value addition criteria citing existing agreements (e.g. Indo–Thai FTA, Indo–Singapore CECA, SAFTA). The difference in opinion led to rescheduling of the implementation of Indo-ASEAN FTA from 1 January 2006 to 1 January 2007 (Basri, 2005), resulting non-

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5 The analysis under this sub-section draws from Chakraborty and Sengupta (2010).

implementation of the early harvest programme (EHP) involving tariff reform in selected commodities.

India's relations with the ASEAN countries improved in line with their joint negotiations (G-20, NAMA-11) against the EU-US proposal at the Hong Kong Ministerial (2005). However ASEAN was upset with India's 1,414-item-long negative list covering rice, textiles, palm oil, coconut oil and petroleum products etc. (Reuters, 2005), and ask it to trim the same to 500 (Sen and Siddiqui, 2006). On the other hand, ASEAN was adamant on maintaining country-specific separate negative lists with India, increasing pressure on the latter. India finally responded with a smaller negative list of 991 products in early 2006 (ET, 2006a), but in March the Indian Ministry of Agriculture expressed eagerness to include farm products like pepper, rubber, palm oil, coffee and tea in the sensitive list (Cerojano, 2007). On the other hand, Indonesia, Malaysia, the Philippines and Thailand, who belongs to the Cairns group, wanted zero tariffs for these categories. ASEAN's country-specific total list of 2,900 sensitive items including 500 highly sensitive products forced India to offer a new negative list of 854 products (ET, 2006b). However, ASEAN rejected India's associated proposal to apply tariff rate quotas (TRQs) for imports of palm oil, pepper, tea and coffee (Sidhartha, 2006), leading to suspension of FTA negotiations in July 2006 (FE, 2006a).

When negotiations re-started in August 2006, India reduced its negative list to 560 products. It also proposed to reduce import duty on refined palm oil from 90 per cent to 60 per cent, crude palm oil from 80 per cent to 50 per cent, black tea from 100 per cent to 50 per cent and pepper from 70 per cent to 50 per cent (Vijian, 2006a). Though ASEAN put forward a new negative list of 600 products (ET, 2006b), the same was increased considerably in December 2006 (FE, 2006b). ASEAN argued that the 15-year long period sought by India for reducing tariffs to 5 percent in several categories constrains its market access (Vijian, 2006b). Finally in January 2007, the two sides agreed to cap their negative lists at 5 per cent of each others' trade, (IINS, 2007). India kept 490 items in its negative list, while offering to reduce tariffs on sensitive items like palm oil, pepper and tea to 50–60 percent by 2022 and the number of products under sensitive list (BS, 2007).

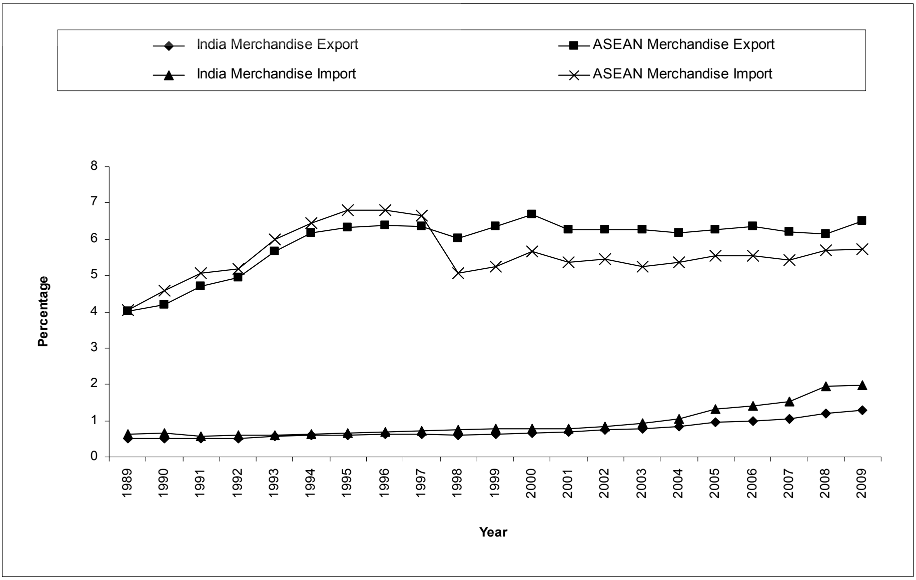
In August 2007, the negotiation process hit roadblock once again as Indonesia, Viet Nam, Brunei and Malaysia strongly objected to India's submission to classify crude and refined palm oil, coffee, tea and black pepper as 'special products' (Cerojano, 2007). ASEAN proposed that India should reduce the tariff on palm oil and tea, coffee and pepper to 30 and 20 percent respectively (ET, 2007). Finally in August 2008, convergence of interest slowly started emerging. It was decided that India's negative list will cover coconut, spices, wheat, maize, rice, processed food, rubber etc., which will not be affected by the FTA duty reduction process (PTI, 2008). The agreement allowed India to reduce duties on refined palm oil from 90 per cent to 45 per cent, crude palm oil from 80 per cent to 37.5 per cent, pepper from 70 per cent to 50 per cent, and on black tea and coffee from 100 per cent to 45 per cent by 2018 (Adamrah, 2008). The Indo-ASEAN FTA was finally signed on 13th August 2009 and came into force from January 1, 2010 onwards. This pan-ASEAN preferential arrangement supplemented the Indian access to the Singaporean market since 2005 and limited presence in the Thailand market since 2006. Subsequently the preferential agreement with Malaysia has also come into force from July 1, 2011 onwards. However, barring the exception to Singapore and Malaysia, services and investment integration in other ASEAN markets is still forthcoming. The problems being faced during the services and investment agreement negotiation with ASEAN are discussed in the following section.

3. India and ASEAN: Issues relating to Merchandise trade

Figure 2 shows the percentage share of ASEAN and India in the world merchandise trade over the last two decades. It is observed from the figure that the trade share of ASEAN increased consistently up to 1997. While exports were affected moderately by the East Asian crisis in the following period, the adverse effect on imports have been much stronger. A relative stability in ASEAN's trade share is observed over 2000-07, after which a growing trend is noticed. Within ASEAN, export share of Brunei, Cambodia, Lao PDR and Myanmar has remained almost constant over the period. The export shares of Indonesia, Malaysia and Philippines are increasing in the recent period, but are yet to reach the corresponding figures enjoyed by them a decade back. A similar experience is noted for Singapore as well, but the country has enjoyed a much better performance. Viet Nam is the only country which has increased its global presence considerably over the last decade, from 0.20 percent in 1999 to 0.46 percent in 2009. The share of India in global exports is presently comparable to Malaysia and Thailand, although the rise in the market presence of the former has been much steeper in recent years.

The observed global export share dynamics in ASEAN and India can be explained by the timeline of their policy shift. Several Southeast Asian economies joined the export bandwagon very early, as part of the Japanese / Korean investment led 'flying geese' model. On the other hand, Cambodia, Lao PDR and Viet Nam adopted socialism and missed the benefits from this drive. However, from the nineties onwards, ASEAN countries became closely linked with each other through the integrated production networks, particularly in the automobile sector (Hiratsuka, 2010). As a result the transition economies in ASEAN are also receiving FDI and technical expertise in recent period, with growth and employment repercussions. On the other hand, the Indian story was marked with 'export pessimism', leading to a fall in its global merchandise export share from 2 per cent in 1947 to 0.4 per cent in 1991. As a result, during early nineties when labour-abundant economies like India and Viet Nam moved towards export-driven growth strategy, the older members of ASEAN had already crossed the peak phase of their advantage in terms of low labour costs. The Southeast Asian crisis subsequently affected Indonesia, Malaysia, Singapore and Thailand more severely than India or the newer members of ASEAN.

Figure 2: Presence of India and ASEAN in Global Market



Source: Constructed from International Trade Statistics data, WTO

India has considerably moved up the technological ladder over the last decade, but it faces challenges from ASEAN partners on both counts. On one hand, its agricultural exports stand vulnerable to the low-cost producers of Indonesia, Malaysia, Thailand and Vietnam. On the other hand in the manufacturing sector, it faces challenges both from labour-intensive (e.g. Vietnam, Thailand) as well as technology-intensive products (e.g. Singapore) coming from the ASEAN market.

Before going into the trade trends in the Indo-ASEAN FTA, a note on average applied tariffs in the countries before and after the recent recession will not be inappropriate here. It is observed from Table 1 that the average tariff in India has declined considerably for both agricultural and non-agricultural products over 2006 to 2009. However, several ASEAN countries, which have already reduced their non-agricultural tariff considerably by 2000, did little to reduce the same further. In case of agricultural tariff, rather a recession effect is reflected from the average MFN tariff trends in Indonesia, Malaysia, the Philippines and Thailand. Similar stagnation is noticed for non-agricultural products in a number of ASEAN countries as well. The recent stagnation of tariff reform process in ASEAN provides an opportunity to the Indian players, as the preference margin vis-à-vis non-members in the post-bloc formation period will continue to provide considerable market access opportunities for them.

Table 1: Simple Average Applied MFN Tariff in ASEAN and India

Country	Agricultural Products		Non-Agricultural Products	
	2006	2009	2006	2009
India	37.6	31.8	16.4	10.1
Brunei Darussalam	5.2	0.1	3.0	2.9
Cambodia	18.1	18.1	13.7	13.6
Indonesia	8.2	8.4	6.8	6.6
Lao PDR	19.5	19.5	8.2	8.2
Malaysia	12.3	13.5	7.9	7.6
Myanmar	8.7	8.7	5.1	5.1
Philippines	9.6	9.8	5.8	5.8
Singapore	0.2	0.2	0.0	0.0
Thailand	22.1	22.6	8.2	8.0
Vietnam	24.2	18.9	15.7	9.7

Source: Compiled from World Tariff Profile, WTO

Over 2000 to 2009, India's exports to ASEAN have increased from US $ 2.74 billion to US $ 18.11 billion. The increase in imports over this period has been from US $ 4.15 billion to US $ 25.80 billion. India's exports to Viet Nam over this period have increased from US $ 225.90 million to US $ 1838.95 million. On the other hand, Brunei and Viet Nam have increased their export to India from US $ 0.15 million to US $ 428.65 million and US $ 12.39 million to US $ 521.81 million respectively. The trade integration between India and select ASEAN countries over 2000 to 2009 can be accessed from Table 2. It is observed from the table that both India's exports to and imports from ASEAN partners has increased over this period, implying greater integration.

Table 2: Evolving Trade patterns between ASEAN and India

Country	**Exports to ASEAN / India (percentage share in overall trade)**		**Imports from ASEAN / India (percentage share in overall trade)**	
	2000	**2009**	**2000**	**2009**
India	6.28	10.13	8.12	9.00
Indonesia	1.85	6.38	1.57	2.28
Cambodia	0.01	0.10	0.66	0.91
Malaysia	1.96	3.07	0.89	1.81
Philippines	0.17	0.52	0.49	1.16
Singapore	2.02	3.43	0.80	2.29
Thailand	0.71	2.11	1.00	1.29
Vietnam	0.33	0.73	1.14	2.20

Source: Calculated by the authors from WITS data

The export share of India in the ASEAN markets has also increased considerably, despite the 'multiple bloc' phenomenon present there. It can therefore be expected that India's market presence in ASEAN would increase further, once the FTA tariff reductions are fully implemented. Though early trends on this front are being observed, due to paucity of data points the analysis cannot be extended to 2010 for all ASEAN countries.

It has been noted by Chakraborty and Sengupta (2010) that the share of intermediate products in Indo-ASEAN trade is increasing, indicating growing occurrence of intra-industry trade (IIT). The present analysis calculates India's IIT with ASEAN as a whole and also with individual partners by using the following Grubel-Lloyd (corrected) formula:

$$GLC = \frac{\sum_i (X_{ij} + M_{ij}) - \sum_i \left| X_{ij} - M_{ij} \right|}{\sum_i (X_{ij} + M_{ij}) - \left| \sum_i X_{ij} - \sum_i M_{ij} \right|} \times 100$$

where, X_{ij} denotes India's export of i-th HS 4-digit commodity to country j. The IIT index calculated by this formula varies between 0 and 100 - when exports are exactly equal to imports, the index would be 100. On the other hand, when either export or import is zero, then the index is also zero, signifying absence of IIT.

Table 3 shows a generally increasing trend in India's overall IIT with ASEAN. The IIT level is at a relatively higher level with respect to Malaysia, Singapore and Thailand, while the same with Indonesia and Viet Nam is showing an increasing trend only recently. Lower IIT with less developed countries like Myanmar can be justified by the lesser incidence of simultaneous trade in many product categories. In particular, the bilateral trade between India and the Brunei, Cambodia, Lao, Myanmar and Vietnam is still concentrated in a few product categories. The findings imply that India needs a concerted strategy in coming years to integrate effectively with ASEAN production networks.

Table 3: India's IIT with ASEAN Countries

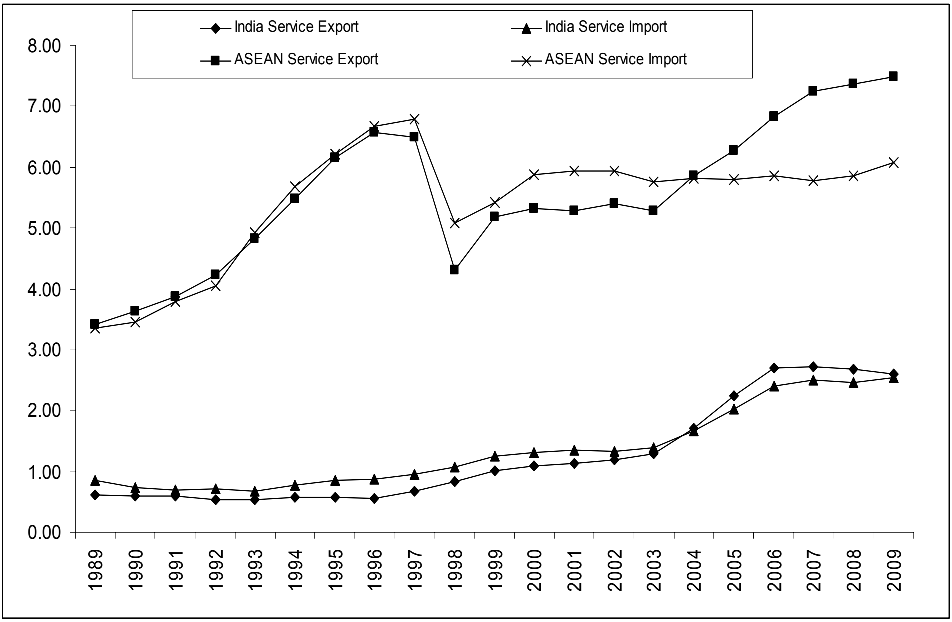
Year	ASEAN	Indonesia	Malaysia	Myanmar	Singapore	Thailand	Viet Nam
1995	16.63	5.50	13.45	0.21	21.22	17.94	0.40
1996	14.59	4.22	13.00	0.30	22.84	16.53	8.46
1997	18.01	6.91	12.71	1.86	23.98	15.21	2.28
1998	22.44	12.81	11.60	1.44	27.43	12.42	5.91
1999	24.95	21.33	20.52	2.82	27.39	12.63	4.45
2000	27.05	11.26	28.95	2.19	33.27	17.52	17.85
2001	24.46	11.70	25.55	0.39	28.16	14.40	7.99
2002	18.08	12.44	12.83	0.62	18.88	22.10	12.02
2003	20.42	10.41	18.06	0.20	15.01	22.10	12.04
2004	21.74	8.47	19.28	0.14	22.29	19.85	7.96
2005	22.12	11.85	23.05	0.09	22.76	19.67	11.25
2006	33.22	14.07	25.78	0.16	34.27	21.41	13.81
2007	38.46	21.71	22.43	0.25	48.50	18.89	18.60

Source: Calculated by the authors from WITS data

4. India and ASEAN: Concerns over Trade in Services

The presence of India and ASEAN in global services market can be noted from Figure 3. The effect of East Asian Crisis on ASEAN exports during late nineties is clearly observed from the figure. It is also observed that both ASEAN as a whole and India are enjoying a surplus in service exports from 2004 onwards. At present only Lao PDR, Maynamar, Thailand and Viet Nam are having negative trade balance in services. It deserves mention that India's service export has been severely hit by the recent global recession, given the level of dependence on the US market.

Figure 3: Presence of India and ASEAN in Global Market



Source: Constructed from International Trade Statistics data, WTO

Trade in services can be classified under three broad categories, namely – *transportation services*, *travel services* and an envelope category, *other commercial services*. The third category includes communications service, construction service, insurance service, financial service, computer and information service, other business service, personal, cultural and recreational services etc. Table 4 indicates the sectoral market share of India and select ASEAN countries (who are among top 15 players) over the last decade. It is observed that India's exports under *other commercial services* have been increasing over the years, while it is among the major importers of *transportation services*. The computer and related services and several professional services are chiefly responsible for this gradual increase.

On the other hand, Singapore is a major exporter of *transportation services*, while there exists major import demand for *other commercial services* in Indonesia, Malaysia, Singapore and Thailand. Identification of this demand has caused India to ask for greater market access for Mode 4 of services in ASEAN countries, to enable freer movement of professionals like doctors, nurses, academicians, architects, chartered accountants and chefs in ASEAN markets. Conversely, from the ASEAN standpoint, particularly for Indonesia and Malaysia, Indian KPOs offer immense opportunities in their bid to augment innovation drive in their economies. Clearly exploring the complementarities will benefit both India and ASEAN in the integration process.

Table 4: Global Market Share of India and ASEAN Countries (Sectoral)

Country	Export (percentage)			Import (percentage)		
	2000	2006	2009	2000	2006	2009
Transportation services						
China	1.1	3.3	3.4	2.5	4.6	5.6
India	0.6	1.2	1.5	2.1	3.3	4.2
Indonesia	–	–	–	1.0	–	1.4
Malaysia	0.8	–	–	1.4	1.3	–
Singapore	3.4	3.1	4.4	3.1	2.9	3.2
Thailand	–	–	0.8	1.6	2.1	2.1
Travel services						
China	3.4	4.5	4.6	3.0	3.5	5.5
India	0.7	–	1.2	0.6	1.0	–
Malaysia	1.0	1.3	1.8	–	–	–
Singapore	–	–	–	1.0	1.5	2.0
Thailand	1.6	1.7	1.8	–	–	–
Other commercial services						
China	1.5	2.6	3.7	2.0	3.5	4.5
India	–	4.2	3.7	–	2.6	2.4
Indonesia	–	–	–	1.3	1.2	–
Singapore	1.7	2.3	2.7	1.9	2.4	2.6
Thailand	–	–	–	0.9	0.9	1.1

Source: Constructed from International Trade Statistics data, WTO

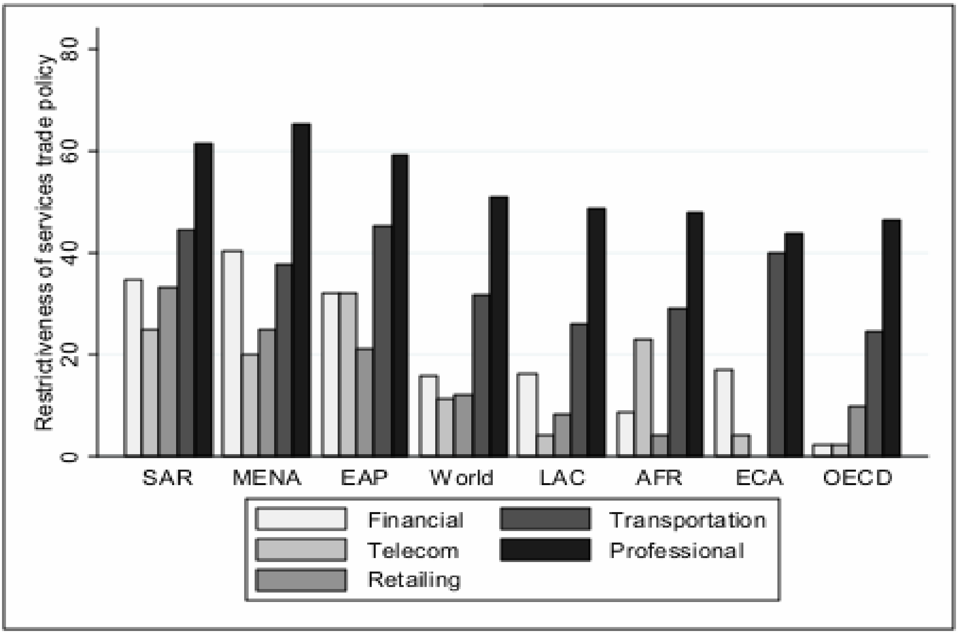
Two key events generally lead to an increasing demand for services inputs into an economy. The first is the emergence of a middle-class requiring a large array of specialized services ranging from high-end medical and financial services to customer support, retail and professional services. The second is the development of a highly specialized industrial sector that is also well integrated to global production networks. With a middle-class population of over 106 million (ADB, 2010), and a well integrated regional industrial economy, ASEAN countries represent one of the most dynamic regions in terms of rising demand for services. The ASEAN services import has increased from US $ 74.05 billion in 1999 to US $ 190.77 million in 2009.

Given India's core competence as a services exporter, and the proximity of Southeast Asia to it, India has been very keen to ensure the best possible access for its services industry into the latter. For instance, India selected Singapore, the services economy hub of the Southeast Asian region for entering into its first comprehensive trade agreement that covered both goods and services. Since then India has pursued a services trade agenda in its negotiations with the ASEAN as a group, as well as seeking deeper market access commitments individually from the larger economies (e.g. Indonesia, Malaysia) in the region.

It is a well-known perception that the losses of Indian agriculture and industrial sector might outweigh the gains from Indo-ASEAN FTA in short run as the country needs to undertake a deeper tariff cut commitment vis-à-vis ASEAN, as reflected from Table 1 earlier. It is however noted that India's export opportunity to ASEAN under trade in services would be far greater. Therefore, India's interest will not be fulfilled unless the services sector and investment provisions are integrated, to update the Indo-ASEAN FTA to Indo-ASEAN CECA. However, the gap between the potential and the realization would be considerable, given the trade barriers in ASEAN countries. Figure 4 indicates the restrictiveness of services trade policies by region and sector. It is observed that South Asian Region (SAR), Middle East-North Africa (MENA) and East Asia Pacific (EAP) are generally having relatively higher trade barriers in services categories, while the same in Eastern European Countries (ECA), Africa (AFR) and Latin America (LAC) are moderate. In particular, high level of trade barriers is still there for financial, transportation and professional services in both SAR (proxy of India) and EAP (proxy of ASEAN), where ample trade opportunity exists between the two sides. The delays in Indo-ASEAN FTA negotiations need to be viewed in this light.

Presently the ASEAN countries restrict market access of the foreign service providers through local subsidiary requirements, prior government approval requirements, and minimum capital requirements etc. (WTO, 2010, 2007a, 2007b). In this context, the major challenge for India is to obtain the some level of market access from ASEAN partners that they have already committed in their service-related FTAs (e.g. the Malaysia–Pakistan FTA). The problem is compounded by the fact that both India and several of the ASEAN countries have adopted a cautious approach while making offers at WTO forums.

Figure 4: Restrictiveness of services trade policies by region and sector



Source: Gootiiz and Mattoo (2009)

So far India has concluded comprehensive agreements covering services with Singapore and Malaysia, and is currently negotiating the services component of India-ASEAN bilateral trade agreement. It also seeks to conclude comprehensive trade agreements that include services and investment with Indonesia and Thailand. The Singapore and Malaysian agreements can serve as a good benchmark for the forthcoming Indonesian and Thai agreements. Nevertheless certain problem areas in these agreements deserve mention.

First, the Singaporean and Malaysian commitments for services market access in their bilateral agreements with India essentially formalize their autonomous regime. In other words, both countries have not made any commitment above and beyond their effective multilateral commitments, with minor exceptions. The only saving grace for India therefore is the certainty guaranteed in market access level across sectors, which cannot be reneged. Secondly, both the agreements have allowed entry of Indian IT sector firms, through Mode 1 (cross border supply) and Mode 3 (commercial presence) routes. In terms of Mode 4, the Malaysian agreement has allowed Contractual Service Suppliers (CSS) and Independent Professionals (IP) in several professional services categories, including accounting and auditing, architects, engineers, urban planning, medical services, technical testing services etc. However, entry in these professions still remains contingent on meeting local certification requirements, which are cumbersome, expensive, and in some cases unfeasible. Thirdly, the expectation that Mutual Recognition Agreements (MRAs) would be easier to implement in preferential agreements have not been realized. Fourthly, both agreements present detailed commitments on a large number of non-IT related professional services, especially in Mode 1. However, unlike Singapore, Malaysia has retained several restrictions on allowing Mode 3 entry in the form of ownership restrictions. Fifthly, Malaysia has kept major restrictions in ownership in telecom, health, and motion picture distribution services, all of which are of immense interest to India. Malaysian restrictions also remain in education services on modes 1, 3 and 4. Market access for another key sector of Indian interest, construction services; also remain restricted in terms of ownership, and the ability of foreign firms to tap all types of contracts. Sixthly, Singapore has made generous commitments in several areas on Indian interest like telecom, motion pictures, construction, education, insurance etc. However, banking is subject to the condition that three Indian banks would be allowed to offer full banking services. Finally, Singapore has made several commitments in Mode 4, and identified 127 professions for visa access in the ICT and IP categories. These include almost all major highly skilled professional categories including engineering, technical, legal, accounting etc. However, from an Indian perspective, the omission of less skilled professions in an urban services hub like Singapore definitely lowers the trade potential.

When the negotiation for including services and investment provisions under the Indo-ASEAN preferential route was initiated, the Indian demand focused on market access for both movements of professionals like software engineers as well as operation of business entities in sectors such as telecom, tourism, banking etc. in ASEAN (Sen, 2009). However, the negotiation progressed slowly as each ASEAN member wanted to submit a separate offer to India, while expecting a consolidated offer from India. India on the other hand was keen to submit different offers to each ASEAN member, given the divergence in conditions prevailing in each market. India’s argument in support of this tactics is that a consolidated offer (i.e., equating Lao PDR with Malaysia) will only be able to ask for limited commitment in advanced developing country, thereby weakening India's bargaining position. Moreover, Sen (2010) notes that India's demand for incorporating MRAs for facilitating entry of qualified India professionals in ASEAN markets without the requirement of additional local qualifications has so far met limited consent from the ASEAN. In addition, like the case of trade in goods, the agreement with ASEAN is possible only when all ten countries are ready to endorse the entire agreement. There is a conflict of interest between India and several ASEAN countries. For instance, Philippines is a major competitor of India in case of services provided by the BPOs (Mode 1), given their proficiency in English. In addition, it also competes with India in movement of nurses and midwives category. Similarly from a selfish sectoral standpoint, management professionals from Singapore, and other professional service providers from advances developing countries like Indonesia and Malaysia have reason to be weary of the competition from India.

As a result, the progress of the services negotiations negotiation has suffered owing to the ASEAN perception on the potential disruptive effects to be caused by the entry of Indian service providers in their domestic labour market (ET, 2011). Basu (2010) noted that Viet Nam, Thailand and the Philippines have expressed concern over India's expertise in sectors like telecom, IT, hospitality and healthcare, which are aided by a quality technical education system at home and proficiency in spoken English. The consequent consistent demand from ASEAN for greater flexibilities in the Indian offers, have delayed the negotiation process. In recent period Philippines has declined to make any meaningful offer to ensure greater access for Indian professionals in its services market (Sen, 2011). Given the stream of events, it is expected that India would negotiate for a much deeper market access commitments from ASEAN-6, while allowing for certain flexibilities for the CLMV (Cambodia, Lao PDR, Myanmar, Viet Nam) countries. The conclusion of the services negotiation with ASEAN is however not likely to occur very soon.

5. Creating Access through Infrastructure Development and Trade Facilitation Measures?

While trade with ASEAN is picking up through maritime routes, expansion of the same through road network also needs to be explored. In order to fulfill the objective of developing India's landlocked north-east region, the country needs to develop core infrastructural linkages of it with Southeast Asia through Myanmar. The connectivity diplomacy on India's part is all the more important in the recent period, given the considerable efforts of China in doing so. Over 2002-07, China has provided a foreign aid of US $ 6.43 billion to ASEAN countries for developing infrastructure (Lum et al, 2009). The Chinese efforts in developing road and rail networks with ASEAN neighbours, coupled with their tariff reforms as part of the ASEAN-China FTA is paving the road for freer entry to cheaper Chinese exports in these markets. In addition, as part of the Aid for Trade initiative, funding agencies like ADB are also creating new connectivity linkages / expanding the existing linkages of the land-locked Southeast Asian countries with China. ADB (2009) notes that as a result of development of the Southern Economic Corridor, 'The total value of trade passing through the Bavet–Moc Bai border crossing post increased by about 41% per annum between 2003 and 2006. The number of people crossing the border increased at an average annual rate of 53% during the same period, while the number of vehicles crossing the border increased at an average annual rate of 38%. Travel time from Phnom Penh to Bavet has been reduced by 30%.' India is aware of these developments and its recent infrastructural initiatives, mentioned in the following, are guided by both economic and political considerations (Bhattacharyya and Chakraborty, 2011).

First, the 160-km long India–Myanmar Friendship road, connecting Tamu to Kalemyo to Kalewa deserves special mention. Second, as part of the Kaladan Multimodal Transport project, India currents participates heavily in major upgradation of infrastructure at Sittwe port in Myanmar, where the Kaladan River joins the Bay of Bengal (Lok Sabha 2006). Apart from economic significance, this project has considerable strategic implications as well. Third, the Mekong-Ganga Cooperation (MGC) is active since 2005 for creating core instraiftural linkages. The discussions on construction of the 1360 km Trilateral Highway, which would join Moreh in India with Maw Sot in Thailand through Bagan in Myanmar, is going on. Rail connectivity for creating New Delhi–Hanoi rail link, involving ASEAN partners Singapore, Myanmar, Thailand, Cambodia and Viet Nam is also there (Rajya Sabha 2003). Similar infrastructure projects including construction and upgrading of the Rhi-Tidim and Rhi-

Falam road sections in Myanmar; development of a deep-sea port at Dawei at the southern tip of Myanmar, and the Dawei–Kachanaburi road link; Tamu–Kalay-Segyi rail link; the Segyi–Chungu–Myohaung rail link etc. are likely to be realized in near future. It can be argued that Indo-ASEAN trade volume will increase considerably, once these proposed initiatives are implemented.

A significant hurdle in the development of trade facilitating infrastructure connecting South Asia with SE Asia has been the lack of comprehensive plan to implement the various cross border transport linkages in a cohesive manner. In the case of intra-ASEAN infrastructure development, the Greater Mekong Subregion (GMS) initiative played a critical role in planning and implementation of cross border regional linkages. With China being a part of the GMS initiative, Sino-ASEAN linkages could to an extent piggy back on GMS initiatives by linking China to SE Asia's rapidly developing regional network. The India-ASEAN FTA does not have a mandate to replicate the GMS model. A possible alternative in the India-ASEAN context might be using the BIMSTEC as a nodal agency for trade facilitation initiatives. But this would require India and Thailand to play a leadership role in transforming the agenda of the BIMSTEC to center around the core area of inter-regional trade facilitation development.

Given the recent developments in Bangladesh, where policymakers are now willing to consider overland routes between India and SE Asia across their territory and allow India access to some of its ports, the time for pursuing transport linkages between SE Asia and South Asia seems ripe. However, the trade facilitation agenda is just not about infrastructure, it is also about processes and regulatory ease of crossing borders. Such reform is often difficult to implement given the multiplicity of stakeholders and agencies involved. However, devising a strategy, and developing a time-bound implementation program could be the first step to get there. Again, a reformed BIMSTEC, with trade facilitation as its core agenda could provide an institutional mechanism to get together customs, ports, civil aviation and other at-the-border agencies together from various ASEAN countries, India, and Bangladesh to move in this direction.

6. Critical Evaluation of Indo-ASEAN FTA

Although the available data points are still inadequate for arriving at a definitive conclusion on the achievements of the Indo-ASEAN FTA, some emerging trends deserves attention. It must be remembered that certain ASEAN economies are now very closely integrated with the manufacturing production bases in People's Republic of China. Much of the trade between Thailand and Vietnam with China is the outcome of being tied up with the Chinese Manufacturing network. Thus an FTA with ASEAN, where China is already entrenched in production network, always instigates fears of Chinese goods flooding the Indian market, in line with India's experience with Sri Lanka. The essential question then arises, given poor or weak implementation (of otherwise good) rules of origin (ROO), will Chinese exporters seek to aggressively use such business networks to reach the Indian market? The other related concern is that many firms have a presence in China, ASEAN, and India, and whether the Indo-ASEAN agreements would influence them to transfer the larger share of the value-addition in their intra-firm value chain to China, given its lowest cost advantage. In such a case, both India and ASEAN members would emerge as losers. The concern is that such cost advantage of China might result from direct state interventions through subsidies and tax breaks rather than from efficient market forces. This is a concern area which both ASEAN and India need to factor in their future strategies.

As already stated, the other problem witnessed during Indo-ASEAN FTA negotiations was the presence of the ‘multiple bloc’ phenomenon is both partners. Hence, the question of tariff reform was meaningful vis-à-vis non-members but ultimately boiled down to price competitiveness at the product level among the RTA partners. As a result, India still has to compete with Australia, China and the US in the Singaporean market, since they happen to be preferential trade partners of ASEAN as well. Hence, during the negotiations both sides tried to extract the best trade deal from the other, and the fight over negative and sensitive lists had been intense. Nevertheless the expected and the realized market access varied considerably, leading to further frictions.

The multiple FTAs of ASEAN also complicated the ROO determination process. India’s prime concern was that since ASEAN countries have multiple FTAs with China and other countries, possibility of routing exports from these countries to India through ASEAN needs to be controlled by twin ROO criteria, namely – 40 percent value addition and change in tariff heading (CTH) at HS 4-digit level. However, at the end India had to accept a much less stringent ROO with a 35 per cent of value addition criteria and change in tariff sub-heading (CTSH) level, i.e., at HS 6-digit. In comparison, the Indo-Singapore CECA follows a 40 percent value addition criteria and CTH at HS 4-digit level. The Indo-Malaysia CECA adopts a 40 percent value addition criteria, but both CTH and CTSH at 4-digit and 6-digit level respectively are followed. The ROO provisions under India's Early Harvest Programme (EHP) with Thailand on the other hand include two criteria: (1) 20 percent value addition with CTH at HS 4-digit level and 40 percent value addition with CTSH at HS 6-digit level. This divergence with respect to individual partners and the ASEAN ROO might pave way for future trade frictions.

How is the Indo-ASEAN trade moving over the last couple of years? It is observed from Table 5 that India currently enjoys a positive trade balance only with Cambodia, the Philippines and Viet Nam. With respect to Singapore, the trade balance has turned positive only in the aftermath of the global recession. As a result, India's inclination towards extending further market access to ASEAN suffered on one hand, while ASEAN countries continued to stress for liberal policy regime for vegetable oil (palm oil) and petroleum products on the other. The recent trade trends indicate that frictions in the arena of merchandise trade between India and ASEAN might continue even in the post bloc period.

Table 5: India's Bilateral Trade Balance Scenario with ASEAN Partners

ASEAN Partner	Export opportunities	Potential import challenges	Trade surplus/ deficit (US$ million)	
			2007–08	2009-10
Brunei	Meat, vegetables, machinery	Mineral fuels	− 215.25	− 404.21
Cambodia	Pharmaceuticals, coffee, tea, cotton, machinery, leather	Ships and boats etc., animal or vegetable fats	50.56	40.49
Indonesia	Chemicals, iron and steel, mineral fuel, food residues, oilseeds, machinery	Mineral fuel, animal or vegetable fats, chemicals, wood and rubber products	− 2,664.57	− 5593.30
Lao PDR	Machinery, chemicals, iron and steel, pharmaceuticals	Lac; gums, resins and other vegetable saps and extracts	3.72	− 3.12
Malaysia	Mineral fuels, chemicals, meat products, machinery, iron and steel, coffee, tea, cereals, copper	Mineral fuels, machinery, wood products, chemicals, animal or vegetable fats, plastic products	− 3,437.31	− 2341.37
Myanmar	Iron and steel, machinery, pharmaceuticals	Animal or vegetable fats, wood products	− 624.20	− 1081.83
Philippines	Meat, rubber, oilseeds, vehicles, iron and steel	Machinery, iron and steel, mineral fuels	414.01	435.70
Singapore	Mineral fuels, ships, gems and jewellery, aluminium, machinery, chemicals, copper	Mineral fuels, machinery, ships and boats, chemicals, books, plastic, aircraft, iron and steel	− 750.10	1137.60

Thailand	Gems and jewellery, copper, mineral fuels, iron and steel, chemicals, food residues, machinery, auto parts and products	Machinery, iron and steel, auto parts and products, plastic and rubber, aluminium	− 493.09	− 1191.36
Viet Nam	Residues and waste from food industries, chemicals and pharmaceuticals, iron and steel, plastic	Mineral fuels, coffee, tea, spices, machinery	1,428.99	1317.14

Source: Calculated from India's trade data,

The last point can be stressed further with the help of Table 6, showing the anti-dumping action matrix involving India and the ASEAN countries. In the table exporters are placed along the rows while the importers are placed in the columns. The numeric in a cell indicates the number of anti-dumping investigations initiated by an importing country against the corresponding exporting country, while the figures in parentheses represents the number of final measures undertaken. It is revealed from the table that so far India has been a major user of this provision against the ASEAN countries, especially against Indonesia, Malaysia, Singapore and Thailand. Interestingly, India is either already engaged in or negotiating bilateral agreements with these countries. On the other hand, only Indonesia is imposing considerable number of anti-dumping actions against India. Therefore, in coming years, with greater import flows in the post tariff reform period, the possibility of increase in anti-dumping activism cannot be rejected. However, if the countries witness sufficient gains from the FTA, then these activities might be selfdisciplined for mutual benefit. In other words, recourse to trade remedial measures in coming years would considerably depend on the gains realized by both countries.

Table 6: Anti-dumping Initiations: Reporting Member *vs.* Exporting Country (01/01/1995 - 30/06/2010)

Exporting Country	Importing Country					
	India	Indonesia	Malaysia	Philippines	Thailand	Total
India	-	12 (7)	1 (0)	0 (0)	2 (1)	146 (90)
Indonesia	24 (18)	-	8 (6)	2 (1)	4 (3)	157 (92)
Malaysia	22 (13)	5 (2)	-	2 (2)	2 (1)	101 (57)
Philippines	2 (0)	1 (1)	2 (1)	-	0 (0)	11 (6)
Singapore	23 (17)	3 (0)	1 (0)	0 (0)	0 (0)	46 (31)
Thailand	36 (21)	5 (3)	7 (3)	2 (0)	-	154 (97)
Viet Nam	4 (3)	0 (0)	0 (0)	0 (0)	0 (0)	27 (21)
Total	613 (436)	83 (35)	43 (25)	18 (11)	43 (31)	-

Source: WTO Anti-Dumping database

Finally it is observed from Table 7 that FDI inflow to India from Southeast Asia, Japan, China or South Korea is yet to witness a marked improvement, barring the case of Singapore. Perhaps the slow progress of the FTA negotiations forced the investors from the ASEAN and other East Asian countries also to proceed cautiously on this front. The investment collaboration is extremely important towards the fulfillment of India’s goal to integrate with ASEAN’s production network. On the other hand, India’s outward investment to Southeast Asia is increasing over the period, though for understandable reasons the inclination to invest in Singapore in much higher vis-à-vis other ASEAN countries. It is noted from RBI (2009) that during 2008-09, 20 percent of India's approved investment proposals targeted the Singaporean market.

Table 7: Investment from Asian Partners to India

Country	2000-2008	2009	2010	2011
	January – December	January – December	January – December	January – March
	INR	INR	INR	INR
Singapore	272,185.32 (7.98)	148,262.44 (11.32)	96,757.80 (10.08)	11,604.75 (7.56)
Japan	106,714.77 (3.13)	60,943.17 (4.65)	58,578.58 (6.10)	16,786.91 (10.94)
South Korea	20,033.67 (0.59)	3,207.16 (0.24)	9,878.30 (1.03)	1,081.32 (0.70)
Hong Kong	15,537.15 (0.46)	7,017.87 (0.54)	8,117.97 (0.85)	545.51 (0.36)
Indonesia	1,562.59 (0.05)	6,518.79 (0.50)	19,902.69 (2.07)	0
Malaysia	9,345.72 (0.27)	1,898.55 (0.14)	2,001.12 (0.21)	223.38 (0.15)
Thailand	1,891.77 (0.06)	1,060.41 (0.08)	698.58 (0.07)	140.79 (0.09)
China	494.34	2,003.16	47.11	32.19
Myanmar	357.49	0	0	0
Philippines	30.12	10.20	15.39	7.28
Vietnam	5.08	0.45	0	0
Total	3,412,513.79	1,309,798.51	960,149.60	153,427.71

Source: Constructed by authors from SIA data

7. The Coming Future

It is an accepted fact that in merchandise products several ASEAN countries are far more efficient producers vis-à-vis India, while the scenario is reversed for trade in services. Enhancing the efficiency level for Indian agriculture or industry is a long run affair, which involves active government and private sector participation. However, the Indo-ASEAN trade bloc is already a reality and the short run consequences needs to be understood for devising responses. One saving grace is that the FTA incorporates safeguard provisions to combat negative influence on domestic industry through sudden increase in imports (for a maximum period of four years). The safeguard option will be available to the member countries for seven to 15 years from the date on which the agreement has come into force (Hunt, 2009).

One obvious action therefore is to understand whether there are any cross-sectoral impacts of the growing services sector in India. In particular, the question is do services affect productivity in sectors like manufacturing? The evidence suggests that in the post reforms period output growth and productivity in manufacturing is clearly influenced by the performance of the services sector. Comparing the services to manufacturing output and growth during pre and post-reforms period, Banga and Goldar (2004) observed that the importance of services as an *input* to manufacturing has increased rapidly in the 1990s as compared to the 1980s. This development is attributed partly to the trade policy liberalization undertaken during nineties, leading to increased competition. This finding corroborates the conclusions of Glasmeier and Howland (1994) that services as inputs to industry enhance their productivity and leads to competitiveness.

However, efficiency and competitiveness are not static fundamentals. Rapid growth of the domestic market in India has created economies of scale, especially in sectors that are defined by greater valued addition such as automobiles and their components, certain engineering and electrical machinery, and specialized chemicals. Economies of scale, combined with improvements in infrastructure, acquisition of technology, and consolidation of industries leading to better management practices has led to India becoming a competitive geography in these sectors. Thus, India is increasingly an important part of a global supply chain. It is not impossible to imagine a future where India, leveraging its bigger market size, demographic dividend of a cheaper industrial labor force, and significant investments in infrastructure and logistical linkages, becomes a global player (and competitor) in sectors like high-end metallurgy, dyeing and molding of customized machinery, steel, chemicals, and heavy machinery. Thus, ASEAN entrepreneurs would look to India as both a supply chain partner and a potential competitor, with both perspectives requiring an investment response from them. Similarly, Indian entrepreneurs would have an identical strategic focus on the ASEAN market.

Thus, the other important component of the collaboration with ASEAN is the investment linkage.

However, India-ASEAN investment linkages are currently at a suboptimal level. Some investment proposals from ASEAN countries have started coming in India in the automobile sector (e.g. Honda Motors, Mitsubishi Motors) in recent period (ET, 2008a; ET, 2008b), but there is considerable scope for enhancing the same further. Similarly, Indian auto-parts makers and renewable-energy firms have expressed willingness to invest in Thailand (Bangkok Post, 2011), but the existing barriers in ASEAN countries are hurting their access.

The India-ASEAN FTA would have to be looked at in the context of two driving forces. The first motive is guided by the failure of multilateral trade negotiations to deliver a comprehensive trade liberalization agenda. The second motive is the growing acceptance for greater integration in a rapidly growing Asia-Pacific region. Even a cursory look at the bilateral engagement strategies of all major Asia-Pacific economies / blocs would reveal a regional focus that seeks to integrate that economy / bloc with rest of the region. For example, India has either completed or is in negotiations with Korea, Japan, ASEAN, Australia, and New Zealand. These FTAs are the building blocs towards an integrated Asian market with fully integrated supply chains.

As these building blocs develop, the current strengths and weaknesses of particular economies define the form and content of the agreements they enter into. Seen in this context, the degree of ambition in the India-ASEAN FTA might seem modest. However, the India-ASEAN agreements will get more and more ambitious with subsequent reviews making it much more comprehensive. Thus, the strength of the India-ASEAN FTA lies in not what is achieves today, but the relationship that it helps evolve over the next two decades to integrate the economies of South and SE Asia

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