A MATTER OF ACCESS

What is on the cards for the India-Asean FTA review

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Last year, Commerce and Industry Minister Piyush Goyal called the free trade agreement (FTA) between India and the 10-member Association of Southeast Asian Nations (Asean) "ill-conceived" and "unfair" to the Indian industry.

Goyal's remarks, made at a public forum, were a reflection of the inordinate delay in the review of the pact with the Asean, which consists of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The FTA came into force in January 2010. FTAs are generally reviewed within a year or two of their implementation, especially to resolve differences, if any.

India, for more than half a decade, flagged the need for an urgent review of the trade agreement since imports from Asean nations grew at a much faster pace than exports from India. That apart, the Indian industry had sought fair and equal market access across all Asean nations.

Eventually, in August last year, both sides announced the aim to complete the review of the existing agreement in goods between the two regions by 2025, giving hope to the industry of a possible course correction.

Government officials say India wants to make the deal more modern and upgrade it with the changing times, since the trade deal was signed more than a decade ago. They also want the agreement to be more user friendly and facilitate more trade, considering the utilisation rate of regional trade agreements has been low.

"Greater market access of goods, flexible rules of origin, and addressing the issue of non-tariff barriers are also being discussed during the review meetings," one of the officials told Business Standard.

Trade imbalance

Biswajit Dhar, distinguished professor at the Council for Social Development, says there is a need for a careful assessment of why India's finished products are not getting adequate market access, and what are the barriers that have resulted to this.

"Tariffs are not major issues (since tariff reduction has been done by the trade bloc). The [FTA] review should focus on what are the non-tariff barriers and if there are any other hindrances not letting Indian exports get adequate market access," Dhar says.

The share of bilateral trade with Asean is almost 10 per cent of India's total trade. India's trade with the Asean more than doubled from $56 billion in 2009-10 to more than $131 billion in 2022-23, but mainly on the back of higher imports from the region. For instance, exports to the bloc stood at $44 billion in 2022-23, up nearly 4 per cent as compared to the same period a year ago. Imports however remained much higher, at $87.57 billion, rising more than 28 per cent. As a result, the trade deficit widened to $43.57 billion in 2022-23 from $25.76 billion the previous year. It was just $5 billion in 2010-11.

Some of the key products exported to the Asean include petroleum products, electronics, electrical machinery, automobiles, medicines, gold jewellery, and diamonds. Top imported items include laptops, computers, palm oil, petroleum products, machinery, and iron and steel, among others.

In the case of some imports, India is heavily dependent on the Asean nations. Supply of palm oil, coal, and other raw materials and commodities account for more than 50 per cent of the imports from the Asean, according to a report prepared by Delhi-based think tank Global Trade Research Initiative (GTRI).

For instance, during the financial year 2022-23, half of India's imports from Indonesia was coal. Nearly 28 per cent of inbound shipments from Malaysia was palm oil.

Though the trade bloc has 10 countries, the trade is dominated by five of them: Indonesia, Singapore, Malaysia, Thailand, and Vietnam. These five account for 92.7 per cent of India's exports and 97.4 per cent of imports.

Engineering Export Promotion Council of India (EEPC) Chairman Arun Kumar Garodia says the incidence of high duties on raw materials compared to final products makes imports of some finished goods cheaper from Asean into India.

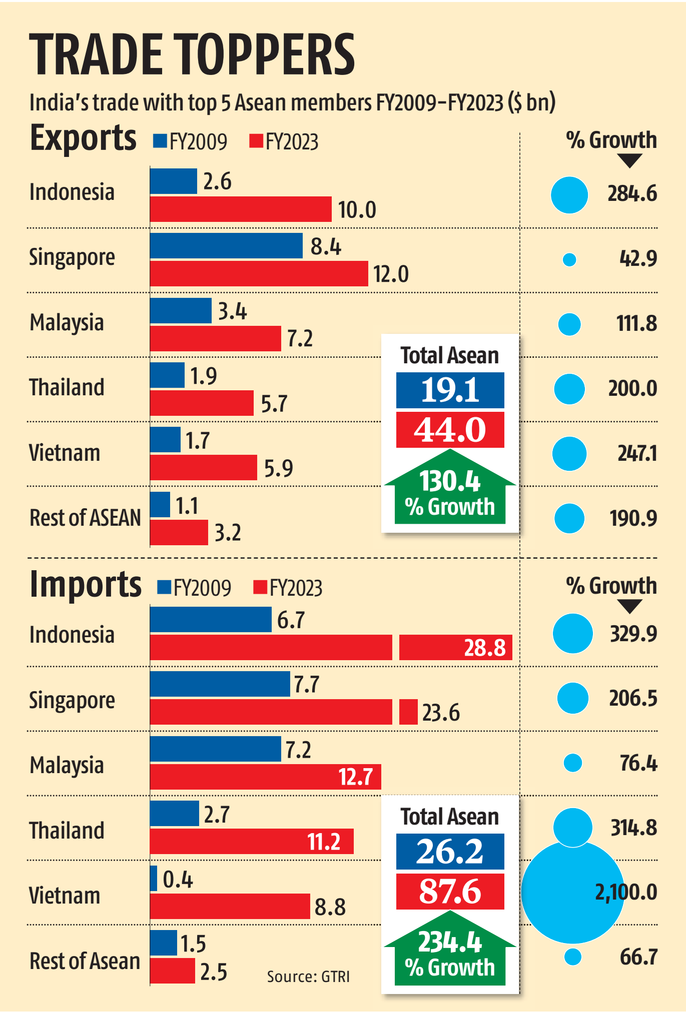
"This inverted duty is a serious concern. Industry is also of the view that trade diversion is happening from China through Asean under preferential routes," Garodia says.

He believes the emergence of the China-backed Asian trade bloc, Regional Comprehensive Economic Partnership (RCEP), which New Delhi is not a part of, has affected India's exports to the Asean region.

"The government needs to consider the implications of RCEP on India's trade dynamics while reviewing the Asean FTA," Garodia adds.

According to the GTRI report, the $23.6 billion worth of imports from Singapore included items such as coal, iron and steel, gold, and smaller amounts of fertiliser, even though the country does not produce these items.

"Firms may be transhipping these from Singapore. But this adds to the cost and is bad business. Such imports must be out of the FTA, but need investigation why they are happening in the first place. Rules of origins may be checked for use of value-addition norms for electronics products, etc. India has a separate FTA with Singapore, with more relaxed rules of origin. Two FTAs may be studied together," the report said.



Way ahead

Ajay Sahai, director-general and CEO at the Federation of Indian Export Organisations, says one of the top priorities of the review should be to bring flexible or product-specific rules for value-addition norms in the case of imports.

In any FTA, duty concessions are given to imported goods produced or originated in the exporting country. This is done to avoid routing of products manufactured in a third country. This is generally determined by factors such as the percentage of value-addition that has been done during manufacturing, under the rules of origin norms.

Most of the trade deals signed by India, including the one with the Asean, have a single rule for all goods that are produced. In the case of the India-Asean FTA, the rules of origin norms require a minimum 35 per cent value-addition.

However, in most of the new trade agreements being signed and negotiated by India in recent times, product-specific rules are also being negotiated to claim the origin of the product. Product-specific rules offer flexibility, and value-addition norms can be customised depending on the need of the product. This is perceived to be a practical approach, considering the current era of different countries contributing a small part of the entire value chain.

Dhar says both sides need to set up a mechanism through which implementation of product-specific rules can be monitored.

"The review should look into the non-tariff measures and rules of origin is one of them. Then there are standards. Standards are not imposed in a transparent manner by most countries and have become the new form of market access barrier now," he says. The government, says Dhar, must do a thorough analysis and find out the reasons why India's exports are suffering. "...and then take it up during the review and ask the member nations if they have failed to provide clean market access to Indian products."