

India's copper industry singed by Asean FTA

It has been disadvantaged by the Asean nations' easy access to raw material, lax rules of origin and non-reciprocal tariff cuts

NILANJAN BANIK

Free trade agreements (FTAs) have become the vehicle of choice for countries seeking to deepen their economic ties. Under an FTA, partner countries provide enhanced access to their markets by engaging in a mutual reduction of trade barriers. Often, this step is followed by a significant increase in the volume of bilateral and multilateral trade between the countries.

At this point, the proponents of free trade agreements often declare victory and extol the virtues of FTAs, of realising the "true trade potential" between the partner countries. However, often overlooked during this premature celebration is a deeper analysis of the factors actually responsible for the rise in trade volumes.

A case in point is the impact of the India-Asean FTA on India's copper industry. Signed in October 2009, the trajectory of copper trade under the FTA exemplifies the threat of celebrating a rise in trade volumes. In 2010-11, the volume of bilateral trade between India and the Asean for Chapter 74 products (copper and its articles) was \$787 million. Bilateral trade in the decade since then has increased to hit \$1.4 billion in 2021-22.

At this point, it would appear that the Asean FTA has been beneficial for trade in copper. However, a deep-dive into the fine print brings to light glaring challenges that merit the attention of the government. In 2010-11, India had a trade surplus of \$395 million with Asean for trade in copper. In 2021-22, the same surplus turned into a deficit of \$971 million. The value of copper exports from India to Asean reduced from \$537 million in 2010-11 to \$142 million in 2021-22. At the

same time, the value of copper imports from Asean increased from \$248 million to \$1.2 billion during this period.

In simple terms, trade volume growth has come at the expense of India's copper industry. At this point, it is easy to attribute the rise in import volumes to the inability of the Indian industry to compete. However, this tendency to label and dismiss legitimate industry concerns needs to be buried in the ash heap of history as it can dent industry confidence. It ignores the structural factors responsible for the rising Asean imports and declining Indian exports.

FTAs amongst themselves

First, the ten countries that constitute Asean have FTAs amongst themselves. As a result, copper smelters in the Asean manufacture refined copper using copper concentrate (a vital raw material for the copper industry) imported at zero per cent from Indonesia, Laos, Myanmar, and the Philippines. Currently, the copper concentrate produced from copper mines in these countries is sufficient to cater to the industry's production and supply needs within the Asean region.

However, in India, domestic production of copper concentrate from copper mines can only satisfy 6 per cent of domestic smelter demand. As a result, copper smelters in India are compelled to procure a chunk of their copper concentrate from non-FTA nations. Due to this, they incur a Most Favoured Nation (MFN) duty of 2.5 per cent on the import of copper concentrate. With copper trading at more than \$8,000 per tonne, this additional duty of 2.5 per cent becomes a significant cost burden for Indian copper producers, unlike their Asean counterparts importing



Asean countries source raw materials at zero duty from within their bloc REUTERS

Disadvantage India

Value of bilateral copper exports (in \$)

	2010-11	2021-22
India	537 million	248 million
ASEAN	142 million	1.2 billion

Source: Ministry of Commerce, 2022

copper concentrate at zero duty.

Second, the rules of origin in the India-Asean FTA mandate a value addition of 35 per cent + CTSH (Change of Tariff Subheading). In other words, a refined copper product such as copper wire (HS 74081990) needs to undergo a value addition of 35 per cent in the Asean region to be eligible for import into India at zero duty.

Thus, copper concentrate produced from copper mines in the

India in 2021-22. The value added in either Malaysia or Thailand alone would not exceed 2 per cent. However, they can still export copper wire into India at zero duty as the value added in the entire Asean region is factored in.

Terms of trade

In simple terms, India on its own needs to meet a value addition of 35 per cent + CTSH while the 10 Asean countries combined have to meet a value addition of 35 per cent + CTSH. This unquestionably shifts the terms of trade in favour of the Asean bloc.

The third is the issue of reciprocal tariffs. The basic underlying principle of an FTA is a mutual reduction in trade barriers. However, this has not been the case in the India-Asean FTA. For example, while exports of copper wire from any Asean country to India will be subject to zero duty (subject to above-mentioned value addition criteria), the same from India to Indonesia and Vietnam will be subject to an import duty of 5 per cent and 7.8 per cent, respectively, putting India at a disadvantage. The surge in imports from the Asean to India is due to structural factors.

A combination of Asean's easy access to raw material, lax rules of origin and non-reciprocal tariff reduction has delivered a hammer blow to the Indian copper industry. The government must pay attention to this as it reviews the India-Asean FTA in the coming months. The government must seek to change the contours of the FTA to level the terms of trade between copper manufacturers in India and the Asean.

The writer is Programme Chair (PhD Programme), School of Management, Mahindra University

Asean countries is converted into copper cathodes by copper smelters in these countries. These copper cathodes are then imported by countries like Malaysia, which change the physical shape of this copper cathode to copper wire. The value added in Malaysia will be less than 2 per cent.

However, Malaysia can export copper wire to India at zero duty as the value added in the preceding Asean countries will also be a part of the value added in Malaysia to arrive at the threshold value addition of 35 per cent. In 2021-22, imports of copper wire (HS 74081990) from Malaysia and Thailand into India were valued at \$454 million.

This alone accounted for over 30 per cent of the total value of copper imported from Asean into In-