

ASSOCHAM

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STUDY

“India - ASEAN Trade ties: The Roadmap Ahead”

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INTRODUCTION

In this globalized world, the strong growth in international trade over the past few years has also opened up challenges confronting the world economies, especially to the trade dependent ones like ASEAN. Today with international trade feeling the brunt of global economic crisis, adding to the pains of these countries (with high percentages of trade to GDP ratio), a need to diversify the trade exposure to the recession ridden US, EU and Japan for India along with ASEAN becomes imperative.

As the present global economic crisis, worst since the great depression of 1930s, is deepening with newer negative developments world over and since no revival in the near term looks feasible, the impact of slowing trade activity in India (exports in particular) due to the global economic downturn lays strong foundation for the INDIA-ASEAN free trade agreement to go through the economic and political hurdles well in time which would give a boost to the sulking trade growth rate for both India and ASEAN.

PARAMETERS

The AEP study has taken into account trade related indicators including:

- ☞ Trade to GDP ratio
- ☞ Share in World Trade, both merchandise trade and commercial service
- ☞ Growth in Trade
- ☞ Share of Trade to US, EU and Japan
- ☞ Average Applied Ad-Valorem Tariff rate
- ☞ Import duties to Total import ratio

DATA SOURCE

- ☞ WTO: World Trade Profile 2008
- ☞ WTO: World Tariff Profile 2008
- ☞ IMF: World Economic Outlook update- January 2009

The international trade data for the analysis has been taken from the following websites:

www.wto.org

www.aseansec.org

www.commerce.nic.in

METHODOLOGY

- I. A comparative analysis of India and ASEAN countries has been done for the following parameters:
 - i. Trade to GDP ratio
 - ii. Share in World Trade, both merchandise trade and commercial service
 - iii. Growth in Trade
 - iv. Share of Trade to US, EU and Japan
 - v. Average Applied Ad-Valorem Tariff rate
 - vi. Import duties to Total import ratio

- II. To analyze the trade ties between India and ASEAN, export and import growth rates have been used along with the trade surplus/deficit for the two economies.

- III. To ascertain the impact of global economic slowdown on India and ASEAN, the global Purchasing Managers Index (PMI) has been taken into account which keeps track of global economic activity pertaining to:
 - i. Output
 - ii. New Orders
 - iii. Input Prices
 - iv. Employment

- IV. To throw some light on the trade and economic outlook of India and ASEAN for 2009, International Monetary Fund's World Economic Outlook update of January 2009 has been used.

EXECUTIVE SUMMARY

- To mitigate the sagging trade with their recession ridden major trading partners in US, EU and Japan, the India-ASEAN Free Trade Agreement is highly imperative to counter rising protectionism and prosper economic co-operation for both the economies.
- According to IMF projections for the trade development in 2009, world trade will contract by 2.8 per cent this year after growing by 4.1 per cent in 2008 and 7.2 per cent in 2007.
- During 2002-07, India's trade deficit with ASEAN grew at a CAGR of 40.9 per cent. From the point of view of bilateral trade outlook, India – ASEAN trade may not be able to cross USD 50 billion by 2010.
- The ASEAN economies with an average trade to GDP ratio of 147 per cent are much more vulnerable to the current economic crisis as their major trading partners including US, EU and Japan are witnessing unprecedented pressure on their economy resulting into trade deterioration. India on the other hand has a relatively balanced trade to GDP ratio of 44 per cent.
- India has a much higher Average Applied Ad-Valorem Tariff rate of 34.4 per cent for Agriculture Products and 11.5 per cent on Non-Agriculture Products against 13.0 per cent and 7.4 per cent for ASEAN respectively.
- For Q1 FY 2008-09, ASEAN emerged as a bigger trading partner than the US, crippled under recession since December 2007. ASEAN had a share of 12.44 per cent ahead of 10.43 per cent share of US in India's exports.
- India has a strategic advantage in services trade with ASEAN, the former being a globally competitive service exporter with a share of 2.73 per cent (ranked 9th) in world exports of commercial service and the latter being a net importer of commercial services.

India-ASEAN FTA imperative to diversify trade exposure from recession ridden countries and counter rising protectionism: ASSOCHAM

To mitigate the sagging trade with their recession ridden major trading partners in US, EU and Japan, the India-ASEAN Free Trade Agreement is highly imperative to counter rising protectionism and prosper economic co-operation for both the economies.

The agreement, which was scheduled to be ratified at the ASEAN annual summit between February 27 and March 1, had also been postponed in December 2008 due to the political unrest in Thailand. With India and ASEAN countries missing the deadline this time due to last minute glitch in the form of number of tariff cuts to be brought about annually, both the parties are missing out on an opportunity to diversify their trade exposure to the recession ridden advanced economies.

Both delinquencies and deliberations leading to stretch timelines that are adding to delays in signing the FTA would resultantly impair the already tottered international trade scenario in the Indo-ASEAN context.

According to the Assocham Eco Pulse (AEP) Study titled “India-ASEAN Trade ties – The Roadmap Ahead”, With US, EU and Japan down under severe recession and a speedy revival out of sight, it becomes crucial for both India and ASEAN to diversify their trade exposure to these recession ridden economies, together controlling almost 60 per cent of the world GDP, 35 per cent of world exports and 44 per cent of the world imports.

More than 36 per cent of India’s as well as ASEAN total exports are traded with these recession ridden economies. Such high level of concentration of exports to these countries has dampened the export growth in India and ASEAN member countries alarmingly. India has registered negative growth in exports for five consecutive months to February 2009 and the trend is unlikely to be reversed considering the global slowdown in demand and rising protectionism world over.

According to IMF projections for the trade development in 2009, world trade will contract by 2.8 per cent this year after growing by 4.1 per cent in 2008 and 7.2 per cent in 2007. Exports from the advanced countries are likely to contract by 3.7 per cent while Imports estimated to decline by 3.1 per cent. For the Emerging and Developing economies like India and ASEAN, exports have been estimated to take a hit by 0.8 per cent whereas imports declining by 2.2 per cent.

The ASEAN economies with an average trade to GDP ratio of 147 per cent are much more vulnerable to the current economic crisis as their major trading partners including US, EU and Japan are witnessing unprecedented pressure on their economy resulting into trade deterioration. India on the other hand has a relatively balanced trade to GDP ratio of 44 per cent. However, over the recent years this has been growing at a good pace.

As per the IMF World Economic Outlook January 2009 update, India and ASEAN have been estimated to grow at 5.1 per cent and 2.7 per cent respectively for 2009 and 6.5 per cent and 4.1 per cent for 2010. The growth rate of ASEAN countries has taken a bigger dip from the earlier projections mainly on account of the higher trade dependency nature of their economies.

During 2006 – 2008, according to the WTO's World Tariff Profile, India reduced its applied Ad Valorem tariff rate on imports by 3.2 per cent for Agriculture products and 4.9 per cent for Non-Agriculture products. On the contrary, the ASEAN countries on aggregate basis increased the rate by 2.3 per cent on Agriculture products and reduced it by a miniscule 0.2 per cent on Non-Agriculture products.

India still has a much higher Average Applied Ad-Valorem Tariff rate of 34.4 per cent for Agriculture Products and 11.5 per cent on Non-Agriculture Products against 13.0 per cent and 7.4 per cent for ASEAN respectively.

Resultantly, at 8.1 per cent, India's Import duties to Total import ratio is again higher than the average 2 per cent for ASEAN-5 including Indonesia, Malaysia, Philippines, Singapore and Thailand.

INDIA-ASEAN TRADE INDICATORS

S.No.	Trade Indicators	INDIA	ASEAN
1	Trade to GDP ratio	44.7	147.0
2	Share in World Trade		
	i) Merchandise Trade:		
	a) Exports	1.0	6.2
	b) Imports	1.5	5.4
	ii) Commercial Services:		
	a) Exports	2.7	4.6
	b) Imports	2.5	5.9
3	Growth in Trade:		
	i) Exports	20.0	12.0
	ii) Imports	24.0	12.0
4	Share of Trade to US, EU and Japan:		
	i) Exports	36.2	36.3
	ii) Imports	26.2	32.2
5	Average Applied Ad-Valorem Tariff rate:		
	i) Agri Product	34.4	13.0
	ii) Non-Agri Product	11.5	7.4
6	Import duties to Total import ratio	8.1	2*
Source: WTO-World Trade Profile 2008, World Tariff Profile 2008			
* refers to ASEAN 5			

THE INDO-ASEAN FTA DETAILS:

- Reducing tariffs to zero in over 4,000 goods out of 5,000 that are traded; in a phased manner over six years.
- Partial reduction in import tariffs on highly sensitive farm goods
Tea, coffee — 45%, pepper — 50%, crude palm oil — 37.5%, refined palm oil — 45%
- Sensitive list of goods with partial duty cuts — 606 items:
(Agricultural — 16, Textile — 304, Machinery & auto — 60, chemicals & plastic — 226)
- Negative list with no duty cuts — 489 items:
(Agricultural — 302, Textile — 81, Machinery & auto — 52, chemicals & plastic — 32, Others — 22)

GLOBAL ECONOMIC ENVIRONMENT:

Rising protectionist measures in face of trade barriers aiming to defend jobs may deepen the global recession if they make it harder for other countries to sell their goods abroad. The global economic activity has taken a big hit since Lehman Brothers filed for bankruptcy in mid September 2008.

The global manufacturing and service activity as measured by the global Purchasing Managers Index indicates the deterioration in all the four segments of the index including Output, New Orders, Input Prices and Employment. During September 2008 and January 2009, the global manufacturing activity contracted the most in the month of December.

JP Morgan Global Manufacturing PMI					
	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Global PMI	44.2	41.0	36.4	33.2	34.9
Output	42.7	39.1	33.1	28.8	30.6
New Orders	40.8	36.2	29.7	25.3	30.0
Input Prices	61.1	48.1	35.9	31.3	33.6
Employment	45.0	42.2	39.6	36.7	36.3

JP Morgan Global Manufacturing & Services PMI					
	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Output	48.5	43.1	35.4	37.5	40.2
New Orders	47.4	41.6	35.2	36.1	38.3
Input Prices	65.4	53.5	41.8	39.5	43.0
Employment	45.8	43.6	43.6	38.3	38.0

Source: Markit Economics

Despite the over all numbers on both the Global Manufacturing & Service PMI has shown improvement in January 2009 over December 2008, the numbers on the employment front have continuously contracted during September 2008 and January 2009 reflecting into rise in protectionism.

Note: A reading above 50 signals economic expansion while a figure below 50 suggests contraction on month-on-month basis.

INDIA - ASEAN TRADE:

The bilateral trade ties between India and the ASEAN trading bloc has been gaining strategic importance for both the entities. In 2007-08, India exported more than 10 per cent of its total exports to ASEAN countries which shows if the INDO-ASEAN FTA had been duly signed after six years of negotiations, ASEAN could well have been catching up as the potentially bigger market for Indian products than the US which has a share of 12.7 per cent in Indian exports.

For Q1 FY 2008-09, ASEAN emerged as a bigger trading partner than the US, crippled under recession since December 2007. ASEAN had a share of 12.44 per cent ahead of 10.43 per cent share of US in India's exports. Therefore, it is evident that the lower demand for Indian products in US, EU and Japan, resulting from the strong likelihood of prolonged recession in these economies, can partly be made good by the enhanced trade arrangements coming out of the Indo-ASEAN FTA.

India's Exports				
<i>Partner Country</i>	<i>2007-08</i>		<i>Q1 2008-09</i>	
	<i>Value (in USD million)</i>	<i>% share</i>	<i>Value (in USD million)</i>	<i>% share</i>
ASEAN	16384.23	10.05	5990.64	12.44
US	20722.17	12.71	5023.67	10.43
Total	162983.90	100.00	48157.14	100.00

Source: Commerce Ministry

On Imports side, India imported more than 9 per cent of its total imports from the ASEAN countries in FY 2007-08, which is higher than 8.36 per cent share of US in Indian imports.

India's Imports				
<i>Partner Country</i>	<i>2007-08</i>		<i>Q1 2008-09</i>	
	<i>Value (in USD million)</i>	<i>% share</i>	<i>Value (in USD million)</i>	<i>% share</i>
ASEAN	22674.58	9.01	6951.88	8.96
US	21029.58	8.36	3969.89	5.12
Total	251562.26	100.00	77608.09	100.00

Source: Commerce Ministry

From the point of view of bilateral trade outlook, India – ASEAN trade may not be able to cross USD 50 billion by 2010, as earlier estimated, due to the likely contraction in international trade activity this year and growing protectionism by countries to defend domestic jobs and other national interests. Delays on account of signing the FTA could also hamper the trade ties between the two parties.

During 2002-07, India's trade deficit with ASEAN grew at a CAGR of 40.9 per cent. The applied tariff rate differential between India and ASEAN has been found to be very high in Food and Animal products along with Chemical products while it is relatively lower for manufactured goods and machinery equipments.

TRADE IN SERVICES:

India has a strategic advantage in services trade with ASEAN, the former being a globally competitive service exporter with a share of 2.73 per cent (ranked 9th) in world exports of commercial service and the latter being a net importer of commercial services.

Possessing high expertise in services like IT/ITeS, telecommunication services, professional services, healthcare and distribution services, India can tap the ASEAN markets and enhance economic cooperation with the trading bloc with an agreement pertaining to trade in services just like the proposed agreement on Trade in Goods (TIG) due to be ratified and operationalize the FTA in merchandise trade.