

Territorial NEWSLETTER ASEAN

EEPCINDIA
ENGINEERING THE FUTURE

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Chairman's Pen



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In this volume of the Territorial Newsletter we brief on the progress of the RCEP negotiations so far. RCEP which is a FTA consisting of 10 ASEAN countries plus Australia, New Zealand, South Korea, Japan, China, and India is expected to have far reaching implications on India's future economic and social development. If accomplished, RCEP would pave the way to the creation of the largest free trade bloc in the world, covering 45 percent of the world's population with a combined GDP of US\$22 trillion and accounting for 40 percent of global trade. The legally binding RCEP covers a wide range of issues including trade in goods, trade in services, investment, intellectual property rights, competition policy, dispute settlement and economic and technical cooperation.

This newsletter gives the readers a summarised version of India's stand in the 'no early harvest' move. I hope that this newsletter will be informative for our readers and I hope they enjoy reading it.

Message from Chairman, Committee on Trade with ASEAN countries



In this edition of the 'Newsletter on ASEAN', we highlight India's 'no early harvest' approach in the RCEP negotiation. As compared to early harvest approach favoured by other member-countries, India intends to achieve a single undertaking agreement which allows trade-offs across sectors during the negotiations.

Global trade negotiations have expanded from tariffs and duties to cover a much wider range. However despite of India's active FTA policy, Indian exporters have not been able to achieve greater benefits from existing FTAs due to low awareness and cumbersome rules. In order to make the RCEP negotiation a successful one, the policy priority should be to address the deficiencies of existing bilateral FTAs with RCEP members through the established review process. We are hopeful that the information provided in the newsletter will be useful for our

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readers.

PK Shah

ASEAN Basic Facts

Member Countries: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

Population: 625 million (2013 estimate)

GDP: USD 2.6 trillion

Climate: Hot, humid, rainy (mostly May to November); dry season (mostly December to April);

Natural resources: Tin, petroleum, copper, natural gas, arable land, gold, hydropower, offshore oil and gas deposits.

India not in favour of an “early harvest”

India has made it clear in the 16-nation RCEP (Regional Comprehensive Economic Partnership) ministerial in Laos that it does not favour an “early harvest”. This means that agreements on all the three pillars of negotiations which include goods, services, and investments can be implemented only as a package and not one at a time. Thus even after reaching a consensus on goods by most of the nations, India still is pressing for a successful conclusion of the talks in services and investments. This will ensure that all the three pillars are put into effect simultaneously and not in isolation.

India has already extended its support and been liberal in providing concessions on goods from the initial offers, provided it gets commensurately attractive offers from other members in services and investments. It is opined that India’s goods offer may not necessarily be very ambitious i.e. offer on tariff reduction may not be very drastic because in services and investments, other participating countries are not committing much beyond their autonomous policy position. However there are chances of some more concessions on goods from the initial position if the negotiations move in a positive direction.

Initially, India had offered to abolish 80% of tariff lines for the ASEAN members for goods imports, 65% of tariff lines for Japan and South Korea and 42.5% for China. The scrapping of tariff lines would result into import duties on specified items be reduced to zero over a mutually agreed-upon time frame.

It is opined by some noted economist that ‘no early harvest’ is a correct move. On account of the inherent dynamic economic implications on inter-linkages among trade in goods, trade in services and

investments, RCEP should be concluded as a 'single –undertaking'. This will help India in tapping the gains from economic complementarities emanating from the RCEP deal.

Trade Trend Analysis

India's total engineering exports to ASEAN during July 2016 stood at 488 USD million which is almost 10% of the total global engineering exports of India during the same.

India's engineering exports to ASEAN in July 2016 decreased by more than 6% compared to July 2015. Like before as in the month of June 2016, four countries recorded negative growth in July 2016 over July 2015 among the ten countries.

The ASEAN countries which feature in the top 25 export destinations for India in July 2016 export data include Singapore, Malaysia, Indonesia and Thailand.

The top 5 ASEAN nations which had the highest demand for Indian engineering products during July 2016 in absolute values include:

Table1: Top Five ASEAN destinations for Indian Engineering Exports

Countries	Eng. Exports in July 2015 (USD Million)	Eng. Exports in July 2016 (USD Million)	Growth (%)
MALAYSIA	115.86	131.87	13.82
SINGAPORE	136.45	108.88	-20.20
INDONESIA	65.96	72.44	9.82
THAILAND	81.63	65.17	-20.16
VIETNAM	61.11	45.09	-26.21

Source: DGCI&S, Government of India

Top 10 engineering panels exported to ASEAN in July 2016 are provided in Table 2.

Table2: Top Ten Engineering Panels exported to ASEAN

Panels	India's Exports in July 2015 (USD Million)	India's Exports in July 2016 (USD Million)	Growth (%)
Copper and products	99.97	98.20	-1.77
Iron and Steel	44.53	45.75	2.72
Industrial Machinery	42.22	40.65	-3.71
Auto Components/Part	34.50	34.65	0.42

Panels	India's Exports in July 2015 (USD Million)	India's Exports in July 2016 (USD Million)	Growth (%)
"Aircrafts Spacecrafts"	6.55	29.59	351.81
Electric Machinery a	31.07	28.63	-7.84
Aluminium and products	29.75	24.13	-18.89
Products of Iron	19.85	21.97	10.65
Motor Vehicle/cars	47.26	21.27	-54.99
"Ships Boats and Floating"	12.33	16.87	36.89

Source: DGCI&S, Government of India

News in Focus

➤ Japan Inc. distancing itself from China, looking to India, ASEAN for growth

Japanese companies no longer see China as a top destination for investment, and are overwhelmingly turning to India and ASEAN for growth, according to a joint survey by Nikkei Inc. and the U.S. think tank Center for Strategic and International Studies.

A combination of China's slower growth and aggressive national security policies has dented the Japanese appetite to invest in the world's most populous nation. Some 80% of respondents believe that China's growth rate will be lower than 3% in 10 years' time, including 34% who said that growth could be in negative territory.

The online survey received responses from roughly 2,800 people over the age of 20, working in the private sector. This is the third time Nikkei/CSIS has surveyed Japan Inc.'s sentiment toward China.

More Information >> Source: <http://asia.nikkei.com/Politics-Economy/International-Relations/Japan-Inc.-distancing-itself-from-China-looking-to-India-ASEAN-for-growth>

➤ Reshaping India's trade policy

Trade data for June 2016 brought cheers as India's merchandise exports showed positive growth after 18 excruciating months. However, in their effort to take exports to the next level, India's trade policymakers face four major challenges: How to encourage foreign investments, obtain a balanced outcome of Free Trade Agreements (FTAs), improve ease of doing business, and reduce dependence on export promotion schemes?

Coincidentally, all four concerns can be addressed by just one action: carrying out a selective reduction in basic custom duties. As the past reductions confirm, it will not lead to the doomsday scenario of domestic industry being wiped out and widespread unemployment. Also, duties are no more the import barriers they used to be. While the earlier 100 per cent tariffs could stop imports altogether, today's 10 per cent cannot. That is why the international trade game has already shifted to non-tariff barriers such as product standards. We are slipping in this game and must brace up fast.

Benefits of low duty

Studies show that when duties fall below tipping point, there is large and non-linear increase in trade. Therefore, the world has decisively moved towards a low import duty regime. Simple average import

duties on industrial goods in Canada, Japan, Australia, the US and the EU are 2.3, 2.6, 3.0, 3.1 and 4.2 per cent respectively. The top six Asean countries have already implemented zero rates on 99 per cent of tariff lines on intra-Asean trade. About 70 per cent of world trade takes place duty-free thanks to the WTO and numerous FTAs. In India, trade and duties seem to be inversely related. Between 1991 and 2016, while India's merchandise trade (exports and imports) rose from \$37 billion to \$642 billion, average duties came down from 128 per cent to 10.2 per cent. However, selective reduction in basic custom duties will address major trade policy concerns.

Low duties encourage foreign investment. Large global manufacturers develop supply chains across countries. Since the complex production process requires goods to cross borders several times at different stages, any duty charged has a cascading and accumulative effect. This makes high duty locations an unattractive destination for investment. Trade facilitation and duty reduction are the first steps for enhancing foreign investment potential and increasing trade.

Low duties make FTAs more balanced. At the most basic level, FTAs allow zero or concessional duty imports from partner countries and hence the first visible impact of any FTA is the loss of customs revenue. Concerns are regularly raised over the higher revenue losses for India compared to partner countries, even as the actual imports under FTAs are still far below the potential. But that's a no-brainer. A country with 10 per cent duty will lose more than a country with 2 per cent duty. There are other problems as well.

A country with higher import duties also ends up giving more market access and buys less goods from the cheapest sources compared to the FTA partner country.

More Information >> Source: <http://www.thehindubusinessline.com/opinion/reshaping-indias-trade-policy/article8894080.ece>

➤ **Malaysian PM vows to strengthen trade ties with India**

Kuala Lumpur: Malaysian Prime Minister Najib Razak has vowed to strengthen trade ties with India and pay "great attention" to helping the Indian diaspora in the multi-ethnic nation.

"I believe in developing this country on an inclusive basis. I will pay great attention to helping the Indian community," Najib said at the launch of the 1st World Kongu Tamilar Conference here yesterday.

Ethnic Indians form eight per cent of Malaysia's 28 million people.

The event was organised by the Malaysia Kongu Tamilar Association, which represents 80,000 of the 200,000 Kongu Tamilar in the country.

Addressing the foreign delegates, Najib reaffirmed his commitment to further strengthening bilateral trade between Malaysia and India.

More Information >> Source: <http://gulfnews.com/business/economy/malaysian-pm-vows-to-strengthen-trade-ties-with-india-1.1867712>

➤ **RCEP faces services logjam; India pushes for liberalized visa regime**

The 16-member Regional Comprehensive Economic Partnership (RCEP) trade talks have hit a hurdle, with India insisting on liberalized visa regime for movement of professionals across borders while other countries refuse to budge.

A crucial RCEP ministerial in Laos on 5 August will now find a way out of the logjam as a pre-ministerial meeting on 18-19 July in Jakarta failed to reach a consensus on the matter. However, participation of India's trade minister Nirmala Sitharaman in the meeting remains doubtful, given the ongoing monsoon session of Parliament.

"Negotiations have entered a difficult stage. There is some amount of logjam that the ministerial will now address. A range of options have been determined, out of which the ministers need to reach a consensus on any one. Now, the impasse can only be resolved through a political call," a commerce ministry official said, speaking under condition of anonymity.

The official said one of the contentious issues is whether there will be negotiations on movement of natural persons, or Mode 4 in World Trade Organization parlance. "The Asean (Association of Southeast Asian Nations) grouping has made it clear that they don't want to do it at this stage. Only India and, to some extent, Australia are pushing for negotiations in Mode 4," he said.

More Information >> Source: <http://www.livemint.com/Politics/7Zfm9yuQYP6XrcNztK7APM/RCEP-faces-services-logjam.html>

➤ **Malaysian companies to invest RM12bil in India**

Eight Malaysian companies will invest US\$3bil (RM12bil) in seven sectors, including renewable energy and biodiesel, in the Indian state of Andhra Pradesh.

The companies are Malaysia Biodiesel Association, Protasco Bhd, Police Cooperative Organisation, Antah Strategic Services Sdn Bhd, Entogenex Industries Sdn Bhd, Sumwim Solutions Malaysia Sdn Bhd, Highgard Sdn Bhd and China 1st Metallurgical Construction Sdn Bhd.

Seven memoranda of understanding (MoUs) signed today between the Malaysian companies and the Andhra Pradesh Economic Development Board, are expected to create about 8,000 jobs, said Asean-India Business Council Co-Chairman Datuk Ramesh Kodammal.

"The value of the MoUs signed today is just a fraction of the business potential between Asean and India.

More Information >> Source: <http://www.thestar.com.my/business/business-news/2016/07/22/malaysian-companies-to-invest-rm12bil-in-india/>

➤ **India, Thailand agree to speed up FTA finalisation**

After joining the 30th round of talks in New Delhi last Wednesday and Thursday, Sirinart Chaimun, director-general of the Trade Negotiations Department, said she and her counterpart Ravi Capoor, deputy permanent secretary of the Indian Commerce and Industry Ministry, agreed that the Thai-Indian Free Trade Agreement should be finalised soon.

"Thailand and India [agreed] that we will be concerned more with win-win benefits rather than losses as in past negotiations so that this FTA can move forward and be implemented in the near future to promote trade, investment, and closer cooperation between the two sides," she said.

During the meeting, Thailand asked India to provide additional market access for the Kingdom's rubber, rice and chemical products, while India asked Thailand to allow computer engineers from India to work in the Kingdom.

They also agreed to adjust their rules of origins to facilitate trade flows, and to discuss sanitary, phytosanitary and technical trade barriers in order to avoid disputes. The Thai-Indian FTA talks have stalled over disagreements on details of the liberalisation of trade in goods, services and investment.

More Information >> Source: <http://www.nationmultimedia.com/business/India-Thailand-agree-to-speed-up-FTA-finalisation-30290933.html>

➤ **India may offer tariff cut in goods at trade summit**

India has agreed to show flexibility in Regional Comprehensive Economic Partnership (RCEP) negotiations and offer further tariff cuts in goods if other member countries agree to a higher level of commitment in trade in investment and services.

A pre-ministerial meeting on 18-19 July in Jakarta and a ministerial meeting on 5 August in Laos are expected to address these differences among member countries.

"We have conveyed that provided there is meaningful progress in services and investment, India is ready to show flexibility on the goods side with higher percentage of tariff lines with tariff reduction," a commerce ministry official said, speaking under condition of anonymity.

India has little to gain in getting market access in goods in other countries due to its poor infrastructure and weak manufacturing base, but it thinks it has an upper hand in services negotiations.

More Information >> Source: <http://www.livemint.com/Home-Page/rpSycTmNjFCelsPr22ty10/India-may-offer-tariff-cuttingoods-at-trade-summit.html>

➤ **ASEAN Represents Significant Business Opportunity For Indian Startups**

This article is triggered by the 5th India – ASEAN Economic Forum event that the author attended recently. ASEA is the Association of South East Asian Nations and comprises of 10 countries. These are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. ASEAN was started in 1967 by Indonesia, Malaysia, Philippines, Singapore, and Thailand and was later expanded to include Brunei, Cambodia, Laos, Myanmar, and Vietnam. ASEAN combine has a total population of over 622 million people and a GDP of over US \$ 2.6 trillion. As a single entity it is the seventh largest economy of the world. Indeed the ASEAN Economic Community has been established in December 2015 along the lines of the European Union.

India signed a free trade agreement with ASEAN in 2009. This is know as the ASEAN–India Free Trade Area (AIFTA). Since then India has been strengthening it's relationship with ASEAN which has got a further boost with the 'Act East' policy of the current government. Trade between India and ASEAN stood at US \$ 65 billion as of 2015-16. ASEAN represents significant business opportunity for India and there is no reason why startups in growth stage cannot take advantage of this. It is heartening to

note that this opportunity has now expanded with the signing of the ASEAN-India Agreements on Trade in Service and Investments in July 2015.

More Information >> Source: <http://bwdisrupt.businessworld.in/article/ASEAN-Represents-Significant-Business-Opportunity-For-Indian-Startups/13-07-2016-100372/>

➤ **The RCEP effect on India**

As the Regional Comprehensive Economic Policy negotiations enter the fourth year, contours of the probable final outcome are gradually emerging. Based on the developments after the 13th round of negotiations that took place in Auckland between June 12 and 18, we get a big picture of what industry can hope to get from RCEP.

Firstly, RCEP will not create a large integrated market. Experts are convinced that replacing the current 'noodle-bowl' of numerous competing free trade agreements (FTAs) with an overarching RCEP would have simplified trade rules and created stronger production bases in the RCEP area.

To become a large integrated market, RCEP must agree to a zero tariff area among members. However, this ambitious solution was never on the agenda. The next best solution could have been RCEP countries agreeing to a single tariff concession list providing uniform tariffs for products across member-countries. However, even this was not agreeable to all.

More Information >> Source: <http://www.thehindubusinessline.com/opinion/the-rcep-effect-on-india/article8835743.ece>

➤ **India to oppose zero-tariffs in RCEP trade pact**

To protect India Inc against unrestricted inflow of goods from China and other members of the proposed Regional Comprehensive Economic Partnership (RCEP), New Delhi is planning to suggest moderation of import tariffs on goods instead of total elimination of duties in the on-going negotiations.

A submission against tariff elimination is likely to be made by India in the forthcoming inter-sessional meeting in Jakarta this month, according to an industry official privy to deliberations in the government on the matter.

"Following meetings with the industry on sensitive areas, there is an increased feeling within the Commerce Ministry that the country is not ready to deal with zero tariffs in most areas.

While there is no running away from lower tariffs once a country gets into a free trade pact, zero tariffs can be disastrous," a Commerce Ministry official said.

Alternative approach

The official told Business Line that New Delhi was planning to make a submission on an alternative approach to tariff cuts in goods in Jakarta as it was uncomfortable with the pressure being exerted by other members, especially China, to agree on tariff elimination on a wide range of products. "But we are to yet take a call on the 'peak level' of tariff that we would want to propose," the official said.

The peak tariff rate would indicate the floor below which import duties would not be reduced and could be subject to negotiations if other members agree to India's proposals. India's proposal could see stiff opposition from other members including the 10-member ASEAN which is pushing for a duty-free trade bloc. Other members of the 16-member RCEP include Japan, South Korea, Australia and New Zealand.

More Information >> **Source:** <http://www.thehindubusinessline.com/economy/policy/india-to-oppose-zero-tariffs-in-rcep-trade-pact/article8820149.ece>

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