

# Territorial NEWSLETTER

## ASEAN + 5

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ENGINEERING THE FUTURE

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The Association of Southeast Asian Nations + China, Japan, Korea, Australia and New Zealand

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### Chairman's Pen



In this issue of newsletter we highlight the observations made by our Honourable Commerce Minister in the last round of RCEP negotiations held in Siem Reap In Cambodia. The proposed RCEP, which aims to create one of the world's largest trading blocs encompassing 45 percent of the world's population and 40 percent of global trade, is now at a critical moment. While the participating countries generally hope to reach a final deal by the end of this year, uncertainties should not be overlooked.

The key concern from India over the RCEP is that the free trade deal, once it comes true, will give greater market access to Chinese goods, and that it will be difficult for its domestic market and manufacturing sector to withstand such an impact.

Since India's trade deficit with China has surpassed \$40 billion and the RCEP will eliminate tariffs on 80 to 85 percent of goods, it seems understandable for India to be cautious toward the high-level trade agreement in the short term in order to protect its domestic market.

In fact, considering that India already has free trade agreements with ASEAN, Japan and South Korea, the RCEP negotiations for India are more like free trade talks with China, and the trade balance between the two is a big problem that cannot be circumvented.

I hope this newsletter will be insightful for our readers and they will enjoy reading it.

**Ravi Sehgal**

## Message from Chairman, Committee on Trade with ASEAN countries



In this issue of newsletter we brief on the latest RCEP negotiation held in Cambodia. So far 25 rounds of talks have been concluded but the members have yet to finalize the number of goods on which customs duty will be eliminated. Issues are also pending in services sector as India is demanding greater flexibility to promote trade in services.

The 16-member Regional Comprehensive Economic Partnership (RCEP) bloc aims to cover among the issues related to goods, services, investments, economic and technical cooperation, competition and intellectual property rights.

The conclusion of the RCEP talks will form a true Asia-Pacific free trade zone, which will generate a development dividend worth hundreds of billions of dollars. For China, a final RCEP deal will be an iconic achievement of the country's participation in multilateral trade, increasing its influence in the multilateral trading system. In this sense, China and Southeast Asian countries are eagerly anticipating concluding the deal by the end of this year.

Nevertheless, on the other side, India is not willing to be really excluded from the RCEP. In fact, the RCEP is one of the few existing paths for the country to participate in the global value chain, which is mainly Asia-centered or China-centered.

We are hopeful that the information provided in the newsletter will be useful for our readers.

**T.S. Bhasin**

## Basic Facts

Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement (FTA) between ten member states of the Association of Southeast Asian Nations (ASEAN) (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand)

Prospective RCEP member states accounts for a population of 3.4 billion people with a total Gross Domestic Product (GDP, PPP) of \$ 49.5 trillion, approximately 39 percent of the world's GDP.

### Scope of negotiations:

RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.

The RCEP will have broader and deeper engagement with significant improvement over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries.

## RCEP members must show flexibility to resolve pending issues

Commerce and industry minister Suresh Prabhu urged the member nations of RCEP bloc to empower their negotiators to adopt flexibility for resolving pending issues coming in the way of concluding the negotiations for the proposed mega trade agreement.

The meeting which was held in the Cambodian city of Siem Reap, aimed at reviewing the outcomes of talks held from November 2018 in Singapore to the recent one in Indonesia.

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Mr Prabhu said that the meeting looked to ensure that there is no marginalization of request of smaller countries and there is room for policy space for developing countries in transition as it will help moderate ambitions, particularly in the goods negotiations and lead to balanced and mutually beneficial outcomes.

India's flexibility helped in facilitating successful conclusion of three chapters -- institutional provisions; sanitary and phyto-sanitary measures and standards, technical regulations and conformity assessment.

The negotiations have entered the sixth year. During the last five years, 24 rounds of negotiations at the expert level were held. The last round was held from October 18-27, 2018 in Auckland. Besides, six ministerial meetings and seven inter-sessional meetings have been held so far.

A lot of ground still needs to be covered this year.

Mr Prabhu cautioned the negotiators to be mindful of the limitations ahead, given that there are only three more rounds this year at the technical level.

RCEP members want India to eliminate or significantly reduce customs duties on maximum number of goods it traded with them. India's huge domestic market provides immense opportunity of exports for RCEP countries.

The minister informed that India and the US constructively engaged in bilateral meetings with a number of countries with an aim to narrow gaps on 'requests and offers' to the mutual satisfaction. "With little more flexibility, we can accomplish a lot in services trade which holds immense potential for RCEP," said the minister.

But lower level of ambitions in services and investments, a key area of interest for India, does not augur well for the agreement that seeks to be comprehensive in nature.

### Trade Analysis & Statistics

India's total engineering exports to ASEAN+5 country wise during April-March of 2018-19 stood at US\$ 17.20 billion. Some major highlights of the cumulative engineering exports from India to ASEAN+5 during April-March 2018-19 are given below:

- ❖ During April-March 2018-19, India's engineering exports to ASEAN+5 stood at US \$ 17198.5 million which is 21.2 % of the total global engineering exports of India during the same period.
- ❖ The share of India's cumulative engineering exports to ASEAN+5 during April-March 2018-19 has increased significantly in comparison to April-February 2018-19.
- ❖ India's cumulative engineering exports to ASEAN+5 during April-March 2018-19 has increased after a long gap of six months, by 4.9 % in comparison to the previous period.
- ❖ Singapore retains its top position once again for cumulative engineering exports during April-March 2018-19 and also ranked as top destination of Indian engineering exports for monthly exports in March 2019. Major items of export to Singapore during April-March 2018-19 were Ships, Boats and Floating Structures, Electric Machinery and Equipment, Aircrafts, Spacecraft's and Parts products, Aluminium and products made of Aluminium and etc.
- ❖ Cambodia, like the previous few months recorded the highest growth of 258.6 % in April-March 2018-19 compared to April-March 2017-18 among the fifteen countries.
- ❖ Lao ranked second in growth, recording a growth of 89.1 % in April-March 2018-19 compared to April-March 2017-18 among the fifteen countries.

Top 5 nations which had the highest demand for Indian engineering products during April-March of 2018-19 in absolute values include:

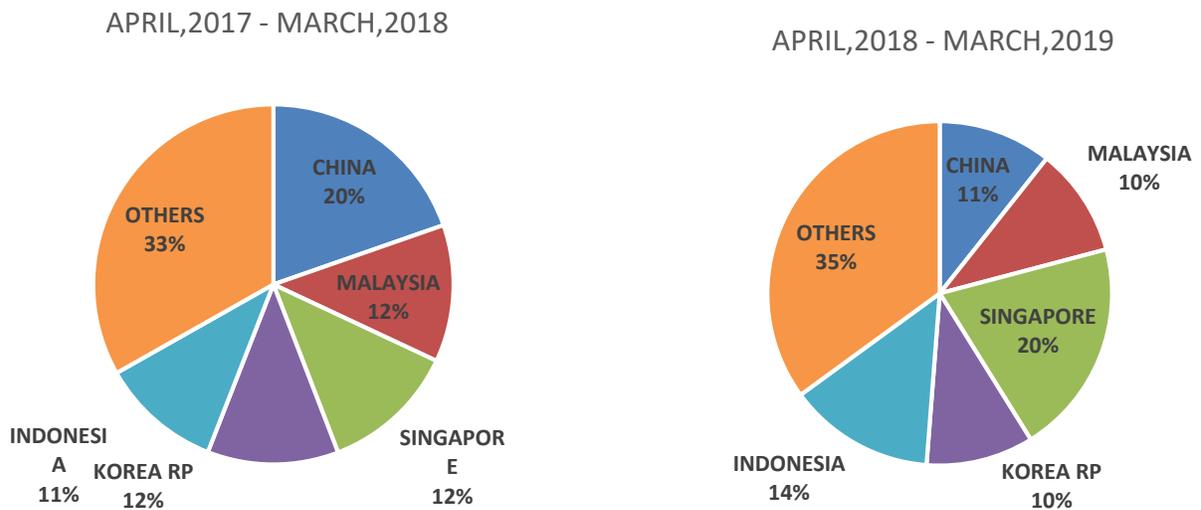
Values in US\$ million

COUNTRY	April-March 2017-18	April-March 2018-19	Growth (%)
SINGAPORE	1996.7	3483.7	74.5
INDONESIA	1784.6	2362.7	32.4
CHINA	3223.7	1834.0	-43.1
MALAYSIA	2021.3	1757.9	-13.0
KOREA RP	1931.3	1734.5	-10.2

Source: DGCI&S, Government of India

A comparison of top 5 nations which had the highest demand for Indian engineering products in April-March 2017-18 and its subsequent change in April-March 2018-19 is shown in the pie chart below:

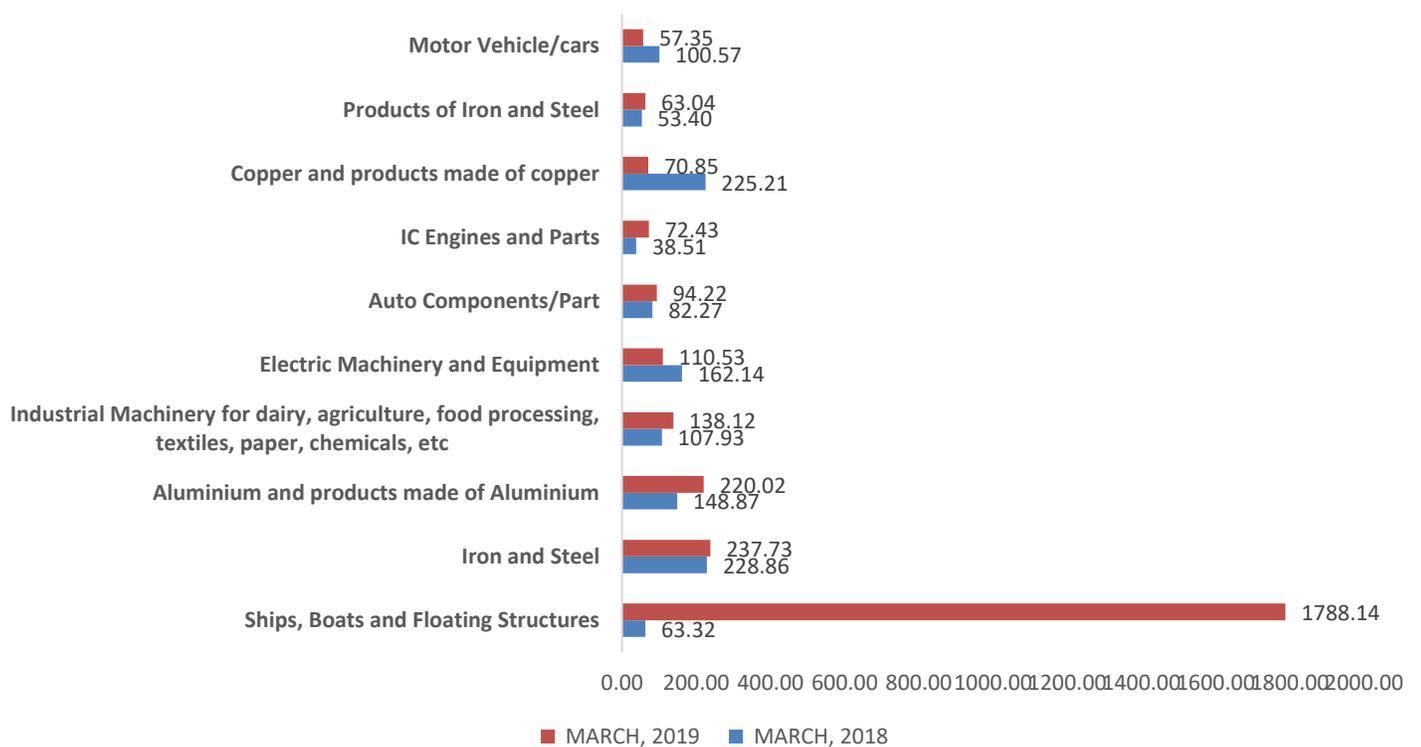
**Fig 3: Change in Engineering Export among the top 5 ASEAN+5 countries (April-March 2018 viz-a-viz April-March 2019)**



Source: DGCI&S, Government of India

Top 10 engineering panels exported to ASEAN+5 during March 2019 viz-a-viz March 2018 are provided in bar diagram.

**Fig 4: Top 10 engineering panels exported to ASEAN+5 in March 2019 viz-a-viz March 2018**



Source: DGCI&S, Government of India

❖ **India seeks broader trade with Cambodia**

The president of the Federation of Indian Chambers of Commerce and Industry (FICCI) said India is considering expanding its investments in the Kingdom, particularly in science and technology, tourism infrastructure and manufacturing.

During a meeting on the sidelines of the 4th India-Asean Expo and Summit held in New Delhi last week, FICCI president Sandip Somany told Cambodia's Minister of Commerce Pan Sorasak that India seeks to broaden trade with the Kingdom, according to a statement from the Cambodian Ministry of Commerce.

"With a vision to build a good relation in terms of trade and investment with all Asean member states, India wants to increase trade and investment in Cambodia as it is still very low compared to many other countries in the region," said Mr Somany.

Read more: <https://www.khmertimeskh.com/581540/india-seeks-broader-trade-with-cambodia/>

❖ **Singapore now India's top FDI source, overtakes Mauritius**

The Singapore-India story is now creating a new historical chapter. FDI in equity from Singapore jumped 41% in the April-December period to almost USD13 billion, while that from Mauritius dropped 55% from a year before to USD6 billion, showed the latest official data.

The top sources for India's FDI were Singapore, Mauritius, Japan with USD2.2 billion and Britain with USD1.1 billion.

FDI inflows into chemicals (excluding fertilizers) in the first three quarters exceeded those into sectors like financial and other services, computer software and hardware, telecommunications, trading, and automobiles.

FDI equity flows routed through Mauritius declined reflecting the impact of the amended DTAA (double tax avoidance agreement). Under the amended treaty with Mauritius, for two years beginning April 1, 2017, capital gains tax will be imposed at 50 percent of the prevailing domestic rate. Full rate will apply from April 1, 2019.

Read more: <https://www.connectedtoindia.com/singapore-now-indias-top-fdi-source-overtakes-mauritius-5168.html>

## ❖ **China asks for duty-free import of 85% of its products into India**

China has asked India to allow duty-free import of 85% of its products into the country. During the countries' bilateral discussions, Indian officials were told that China was willing to give duty-free access to 92% of Indian exports, provided the bar was raised for Chinese products. India has offered to open up 74% of its market to Chinese goods in phases but China is not satisfied with the proposal, mentioned reports.

The demand from the Asian giant is putting pressure on the policymakers as they are looking to create the world's largest free-trade agreement under the Regional Comprehensive Economic Partnership (RCEP).

According to a report in Times of India, India offers lower concessions to China as compared to other countries where over 90% of imports can come duty-free. However, even the current arrangement deals with risk of Chinese goods dominating Indian markets, which would further impact the trade deficit estimated at \$63 billion in the last financial year.

Read more: <https://www.businesstoday.in/current/policy/china-asks-duty-free-import-85-percent-products-india/story/324204.html>

## ❖ **Indian businesses can use Thailand's Eastern Economic Corridor as gateway to Asian market**

Indian businesses can use Thailand's Eastern Economic Corridor (EEC) as gateway to Asian market, said the official from the Thailand Board of Investment.

Executive Director of International Affairs Bureau, Board of Investment, Thailand, Bussarakum Sriratana made the above remarks at a roundtable discussion on 'Thailand 4.0 and Business Opportunities for Indian Partners'. The event was jointly organized by MVIDC World Trade Center Mumbai and All India Association of Industries (AIAI).

Read more: <https://knnindia.co.in/news/newsdetails/global/indian-businesses-can-use-thailands-eastern-economic-corridor-as-gateway-to-asian-market>

## ❖ **'Open Door Trade Policy Is Good For India'**

China is conducting free trade with all South East Asian Countries and similarly if India opens its door bigger then it has a huge opportunity to improve trade with ASEAN countries, said ASEAN-India Business Council (AIBC), Malaysia, Chairman Ramesh Kodammal.

He was addressing a press conference organised by the Mysuru Chamber of Commerce and Industry (MCCI) on D.Devaraja Urs Road here yesterday and said that most of the countries in the world have followed an open door trade policy and have been successful in tackling unemployment problems and maintaining trade

balance. Similarly India can also use this opportunity to develop business interest with ASEAN countries and improve its GDP (Gross Domestic Product), he added.

Read more: <https://starofmysore.com/open-door-trade-policy-is-good-for-india/>

**EIPC India ASEAN+5 Territorial Newsletter**

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