

# Territorial NEWSLETTER

## ASEAN + 5

**EPCINDIA**  
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



**T S Bhasin**

In this issue of the newsletter on ASEAN+5, we dwell on India's concern over the mega trade deal RCEP which is a proposed comprehensive regional economic integration agreement amongst the 10 ASEAN countries including Brunei, Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam, with its six Free Trade Agreements (FTAs) partners- Australia, New Zealand, Japan, China, Korea and India. This free trade pact between India and RCEP countries which is said to account for over 45 per cent of the world population and over \$21 trillion of GDP does seem attractive. But India is cautioned against any trade liberalising broader Regional Comprehensive Economic Partnership (RCEP) framework with a pre-dominant presence of

China through ASEAN.

Balance of Trade (BoT) analysis shows that India has been consistently maintaining trade deficits with most of the trading partners. However the trade deficit with China is much higher than the combined deficit India is having with all other RCEP member nations. Thus India needs to be extra cautious in the final rounds of RCEP negotiations in order to save its own industries from cheap and inferior quality imports mainly from China.

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

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



**P K Shah**

Industrialists have been meeting our Commerce & Industry Minister Suresh Prabhu to voice their unhappiness with the proposed tariff cuts under RCEP. They are especially concerned about India agreeing to bring down tariffs on products from China with which India already has a gaping trade deficit.

The Indian industry is unhappy with the offers already made by India to its other RCEP partners which also include South Korea, New Zealand and Japan. India therefore has to make some token improvements in its offers as part of the fresh round of submissions as it sees no scope of further opening up. Policy makers needs to take urgent note of the fact that what India decides to agree or oppose in the forthcoming RCEP negotiations will have a significant impact on the final result of the negotiations.

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

## EEPC India concerned over trade liberalising RCEP with China

It is said that good negotiating skill is not just about delivering results but also about realizing when saying 'yes' ceases to be an option. In the ambitious Regional Comprehensive Economic Partnership (RCEP) pact India is negotiating with 15 other nations including China. The rising pressure on India for opening up markets in goods is making negotiations unsustainable. India is not being able to justify its continued efforts to reach a compromise.

The meeting, held on September 10 in Manila, has added significance where trade ministers from the 16 member countries — including the 10-member Asean, India, China, Japan, South Korea, Australia and New Zealand tried to accelerate the trade talks but India got assertive about what it could not agree to, eventually getting isolated in the talks.

For most RCEP members, the sky seems to have become the limit as far as ambitions in opening up markets for goods go. As has been reported, many members have demanded that import tariffs on goods — both agricultural and industrial — must be reduced to zero for more than 92 per cent of tariff lines. This would mean that India has to phase out duties on most items and dismantle the wall protecting its industry and farmers from indiscriminate competition. What is less known is that some RCEP countries have further suggested that tariffs should be reduced to less than 5 per cent on an additional 7 per cent of lines which would take the total coverage of items to 99 per cent.

### Rising pressures

EEPC India has cautioned Union Commerce Minister Suresh Prabhu against any trade liberalising broader Regional Comprehensive Economic Partnership (RCEP) framework with a pre-dominant presence of China through ASEAN. What is especially giving Indian industry sleepless nights is the thought of unhindered flow of goods from China with which it already has an annual trade deficit of over \$50 billion. A Free Trade Agreement (FTA) with no duties on most products could increase the deficit significantly. Therefore China's presence in the RCEP framework is a major threat for the Indian domestic engineering industry.

### Why India participated in the negotiations for so long if it is not in a position to offer zero tariffs on many items?

The answer is that India was never averse to the idea of eliminating tariffs on a considerable number of items — the length of the list depending on the country for which it was making the offer. However, it had no clue that it would be pressured into treating all members equally and offering tariff elimination or reduction on an exceptionally long list of items, giving it very little scope to protect its sensitivities.

The gradual cornering of India by RCEP partner countries is reflected in how the negotiations have progressed over the last two years. India's first set of offer for tariff elimination based on a three-tier system — 42.5 per cent of tariff lines for China, New Zealand and Australia, a higher 65 per cent for its FTA partners South Korea and Japan and the highest offer of 80 per cent for ASEAN — was rejected by all members, including ASEAN.

Last August, India was forced to give up its proposal for a three-tier system at the ministerial meet in Laos in favour of a single offer for all. India had to satisfy itself with members agreeing to allow deviations to protect

its vulnerabilities with respect to certain members. The caveat, of course, was that the deviations can't be too high.

Over the past year, despite fierce opposition from its farmer groups and industry lobby, India has indicated to RCEP members that it could offer to eliminate tariffs on about 70-75 per cent of items for all members with certain deviations for countries like China, Australia and New Zealand with which it does not have FTAs.

### **One-sided deals**

But the offer proposed by India has not satisfied the RCEP members. At the recent negotiating round in Hyderabad, India was pushed incessantly to improve its offers with Australia and New Zealand, insisting on increased market access in items like wheat and dairy. The existing situation is exactly what the Indian industry and farmer groups, protesting against the RCEP pact, were apprehensive about.

India's expected gains in goods from the RCEP pact are not significant, given the fact that the existing levels of tariffs in member countries are relatively low and there wouldn't be significant gains from further cuts. This is the main reason why India's gains in goods have been much lower than that of the partner countries in its FTAs with ASEAN, Japan and South Korea.

While India's gains in RCEP are to mainly come from services liberalisation, including easier work visa norms, the offers in the area have been almost non-existent. The ASEAN countries have refused to offer even the level of openness that exists among the 10 member group.

Moreover, many RCEP members are now insisting on inclusion of substantial commitments in the area of e-commerce and investment facilitation — the two areas where India wants to preserve its sovereign right for policymaking.

The policy makers need to cautiously analyse the relative gains and losses before signing the final deal. India has to be firm and calculative in terms of taking strong stand in case of China as it is working tirelessly on capacity building of its domestic industries.

## **Trade Analysis & Statistics**

### **Trade Analysis & Statistics**

India's total engineering exports to ASEAN+5 country wise during April-October of 2017 stood at US\$ 8.9 billion. Some major highlights of the cumulative engineering exports from India to ASEAN+5 during April-October 2017 are given below:

- ❖ During April-October 2017, India's engineering exports to ASEAN+5 stood at US \$ 8882.3 million which is 21.2% of the total global engineering exports of India during the same period.
- ❖ India's cumulative engineering exports to ASEAN+5 during this period have also increased by 29.9%.
- ❖ China topped the list for Indian cumulative engineering exports. Major engineering products exported to the country include Copper and products, Iron and Steel, Zinc and products, Electrical machinery & equipments etc and IC Engines and parts. It also recorded huge positive growth in imports from India during April-October 2017 compared to April-October 2016 among the fifteen countries.

- ❖ Vietnam and Myanmar recorded positive growth in imports of more than 50% from India during the said period among the fifteen countries.

Top 5 nations which had the highest demand for Indian engineering products during April-October of 2017-18 in absolute values include:

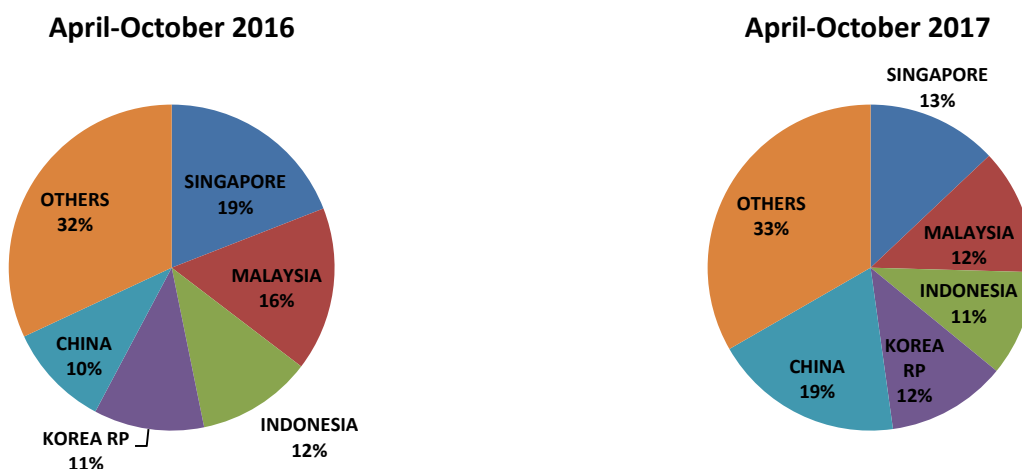
Values in US\$ million

COUNTRY	APRIL-OCTOBER 2016	APRIL- OCTOBER 2017	Growth (%)
CHINA	703.3	1677.4	138.5
SINGAPORE	1305.2	1151.9	-11.7
MALAYSIA	1114.4	1107.7	-0.6
KOREA RP	750.3	1054.6	40.6
INDONESIA	781.1	930.9	19.2

Source: DGCI&S, Government of India

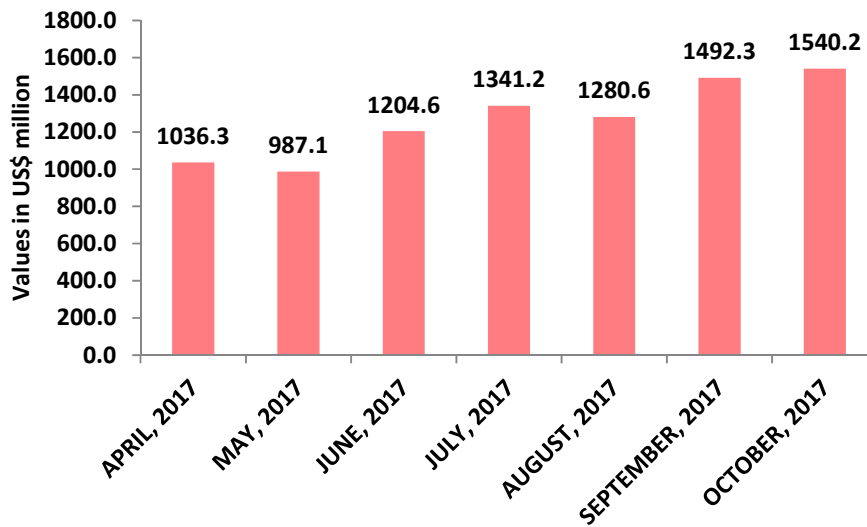
A comparison of top 5 nations which had the highest demand for Indian engineering products during April-October 2016 and its subsequent change in April-October 2017 is shown in the pie chart below:

**Fig 1: Change in Engineering Export among the top 5 ASEAN+5 countries (April-October 2017 viz-a-viz April- October 2016)**



Source: DGCI&S, Government of India

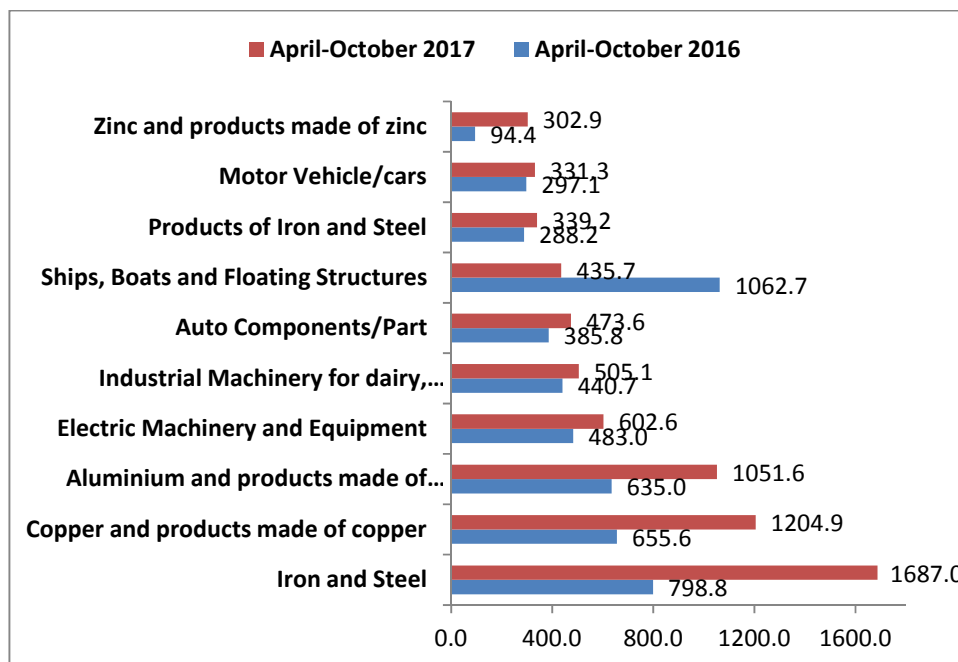
Fig 2: Trend in Total Engineering Export in ASEAN +5 during April-October 2017 (Month wise)



Source: DGCI&S, Government of India

Top 10 engineering panels exported to ASEAN+5 during April-October 2017 viz-a-viz April- October 2016 are provided in bar diagram.

Fig 2: Top 10 engineering panels exported to ASEAN+5 in April- October 2017 viz-a-viz April- October 2016



Source: DGCI&S, Government of India

## News in Focus

### ❖ Increased connectivity and trade sought in India-Myanmar relations

At a forum held in Yangon to celebrate and discuss 70 years of India-Myanmar relations, a key message to come out being the need to substantially increase connectivity, trade and diplomatic relations between the two neighbours.

Parami Roundtable and Mizzima Media Group organised the first India-Myanmar Dialogue 'Act East Policy and India-Myanmar Relations' at Park Royal Hotel on 2 September 2017 to commemorate the 70 years of India-Myanmar relations.

The roundtable was attended by high level speakers from India and Myanmar. Mr Ken Tun, Chairman, Parami Energy Group, the main organiser and sponsor, extended the opening remarks. H.E. Mr. Vikram Misri, Indian Ambassador to Myanmar extended the special remarks. U Nay Oke, Professor of English gave the keynote address. The Book entitled "Myanmar's Integration with the World: Challenges and Policy Options", jointly edited by Prabir De and Ajitava Raychaudhuri with contributions from several Myanmar scholars and published by Palgrave Macmillan, Singapore was also released at the roundtable.

Read more: <http://www.mizzima.com/business-international/increased-connectivity-and-trade-sought-india-myanmar-relations>

### ❖ SteelMint Scrap Conference: ASEAN anticipation

Urbanization and economic growth are likely to keep steel consumption and steel production rising in Southeast Asia, according to speakers at SteelMint's 2017 Steel Scrap & Raw Materials Conference Asia. Presenters from several ASEAN (Association of Southeast Asian Nations) countries provided overviews.

Nghiem Xuan Da, the chairman of Vietnam Steel Corp., said new capacity installed in that nation allowed Vietnam's steel billet production to leap by 118 percent in 2016. The nation's steelmakers produced 7.8 million metric tons of steel in 2016 and used some 4 million metric tons of imported ferrous scrap as furnace charge.

Of that 7.8 million metric tons of steel produced, Nghiem said 4.7 million metric tons (60.2 percent) was made via the electric arc furnace (EAF) method; 2.3 million metric tons (29.5 percent) was in basic oxygen furnaces (BOFs); and 0.8 million metric tons (10.3 percent) was produced in foundries and induction furnaces.

Read more: <http://www.recyclingtoday.com/article/steelmint-vietnam-thailand-india-ferrous-scrap-steel-recycling/>

### ❖ Thailand's Relevance for India's Act East Policy

Over the past two decades, India has strengthened its outreach towards Southeast Asia, in both economic and strategic spheres. ASEAN has become India's fourth largest trading partner. Trade between India and ASEAN is now estimated at \$70 billion in 2016-17.

Recently, India extended an invitation for the leaders of the 10 ASEAN member states to visit the country for the Republic Day celebrations on January 26, 2018. 2017 marks the 25th anniversary of ASEAN-India relations.

Thailand's significance has increased in recent years. Not only is it a neighbor of Myanmar, which India has also sought to court, but also shares some growing discomfort with China's rise. The two countries have historic links, particularly through Buddhism, and there is a large Indian diaspora in Thailand.

In recent years, there have been renewed efforts to increase land connectivity between India and Southeast Asia, via Myanmar. The India-Myanmar-Thailand trilateral highway will help in connecting South Asia with Southeast Asia. An India-Myanmar-Thailand trilateral, which has been spoken of for some time, is becoming increasingly imperative, not just in the context of this highway, but the Dawei Project as well.

Read more: <https://thediplomat.com/2017/09/thailands-relevance-for-indias-act-east-policy/>

#### ❖ **India fails to find support for visa-free biz travel among 15 Asia-Pacific nations**

India's proposal for visa-free movement for short term business trips within the proposed 16-nation Asia-Pacific trade and investment group has failed to find favour with Australia, Japan and China over apprehension of large-scale immigration to these countries.

India had pitched the idea under the Regional Comprehensive Economic Partnership (RCEP) free-trade agreement two years ago with an aim to help bona fide business travellers avoid visa documentation and long queues at passport control. "Other members are not willing to take commitments and said they can't support our proposal," an official aware of the development said on condition of anonymity.

Read more at: <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-fails-to-find-support-for-visa-free-biz-travel-among-15-asia-pacific-nations/articleshow/60520151.cms>

#### ❖ **Trade Ministers from 16 RCEP countries to meet again in November for breakthrough**

Commerce and Industry Minister Suresh Prabhu resisted pressure for committing to greater market access at the Regional Comprehensive Economic Partnership (RCEP) Ministerial meet in Manila last week-end although the reprieve is likely to be short lived.

Trade Ministers from the 16 countries' group — the 10-member ASEAN, China, India, Japan, South Korea, Australia, New Zealand — have agreed to meet again in November to try for a breakthrough.

"India managed to convey that it was not ready to commit to tariff elimination on the whole gamut of items that other members are pushing for as it needed to cover the sensitivities of its industry and agriculture. The pressure on the Indian Minister this time surprisingly was lower than usual and it was dealt with well. But Trade Ministers are determined to get the negotiations moving at the next meet in November in Manila," a government official told BusinessLine.

New Delhi is expected to improve its current offer of tariff elimination of about 70-75 per cent items, with certain deviations (of lower cuts) for countries like China, Australia and New Zealand with which it does not have Free Trade Agreements, at the next negotiating meeting in South Korea in October.

Read more: <https://www.thehindubusinessline.com/economy/policy/at-rcep-meet-in-manila-india-resists-pressure-to-cut-tariffs-further-open-markets/article9857940.ece>

#### ❖ **Singapore is more important to India than even China: IIFT Director Prof Manoj Pant**

"ASEAN has very close cultural ties with India, especially the North East region. The government's priority should be to make the economic sector catch up," said Professor Manoj Pant, Director of the Indian Institute of Foreign Trade (IIFT).

In an exclusive interview with Connected to India, the new head of the institute, who took charge three weeks ago, talked about the direction India's foreign trade sector should advance in, particularly when dealing with our neighbours. He also stated that Singapore is a "natural partner" for the seventh-largest nation in the world, as the advanced island nation can make up for our weaknesses.

The director is set to deliver the keynote address at IIFT's International Business Conclave on 'Disruptors of Global Business Landscape – Politics, Business, and Technology'. The event is scheduled for Friday, September 29 at NTUC Center, One Marina Boulevard.

Read more: <https://www.connectedtoindia.com/singapore-is-more-important-to-india-than-even-china-iift-director-prof-manoj-pant-2804.html>

#### ❖ Time for India to exit RCEP trade pact

Good negotiating skill is not just about delivering results. It is also about realising when saying 'yes' ceases to be an option. In the ambitious Regional Comprehensive Economic Partnership (RCEP) pact India is negotiating with 15 other nations including China, the rising pressure for opening up markets in goods is making negotiations unsustainable. India will not be able to justify its continued efforts to reach a compromise.

As trade ministers from the 16 member countries — including the 10-member Asean, India, China, Japan, South Korea, Australia and New Zealand — prepare to take stock of the negotiations in the Philippines this weekend, New Delhi needs to get assertive about what it cannot agree to, even if it means getting isolated in the talks.

Read more: <https://www.thehindubusinessline.com/opinion/time-for-india-to-exit-rcep-trade-pact/article22134775.ece1>

#### **EEPC India ASEAN Territorial Newsletter**

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