

Territorial NEWSLETTER ASEAN

EEPCINDIA
ENGINEERING THE FUTURE

Vaniya Bhavan (1st Floor)
International Trade Facilitation
Centre (ITFC)
1/1 Wood Street,
Kolkata - 700016
www.eepcindia.org



Volume XIII: September 2016

Chairman's Pen



T S Bhasin

In this volume of the Territorial Newsletter, we brief on the concerns of the industry on India signing the mega trade agreement- Regional Comprehensive Economic Partnership (RCEP). Strong apprehensions have been expressed by the industry associations in India about the possible negative impacts of RCEP. In particular the threat of cheap imports from China, pose significant concern among the industries. There is no point in entering into a mega trade deal without assessing the impacts (positive and the negative impacts) of the agreements.

This newsletter gives the readers a summarised version of the pertinent questions now being faced by India in its stand in RCEP agreement. I hope that this newsletter will be informative for our readers and they enjoy reading it.

Message from Chairman, Committee on Trade with ASEAN countries



P K Shah

In this edition of the 'Newsletter on ASEAN', we bring about the potential gain and loss for India becoming a member of the mega trade deal RCEP. There is no denying about the fact that by being not part of RCEP, India may incur losses on account of trade diversion. But joining this mega pact would also entail substantial economic and social costs, if not properly negotiated. Thus through this newsletter we try to convey that India should continue its RCEP negotiations, not with a vague knowledge but with the clear understanding.

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

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 need not genuflect at RCEP

Negotiations for the RCEP which is a proposed mega regional free trade agreement between sixteen countries (10 ASEAN countries and their six FTA partners, namely, Australia, China, India, Japan, South Korea and New Zealand) is expected to make India a part of one of the largest proposed free trade blocs in the world. The move is gaining momentum. However the crucial question which is now targeted is regarding the direction of the talks which is now taking and the response of our Government. The incumbent Government is being critical and very cautious about its stance as there has been an ever increase in imports from the regions of ASEAN, Japan and South Korea to India, resulting from the previously signed free trade agreements.

In the case of RCEP, the fallout of a badly negotiated pact for India would be much graver than the consequences of the FTAs signed so far, because of the China factor. Unbridled competition from the neighbouring country could be a nightmare come true for an Indian industry already reeling under the burden of a growing bilateral trade deficit which now accounts for nearly half the country's total trade gap.

Although the negotiations on RCEP by its 16 members — which account for 45 per cent of the global population and 40 per cent (\$21.3 trillion) of world trade — are far from being wrapped up, there are already signs that things may not move the way India envisages.

At the meeting of trade ministers in Laos early August, India gave up a long-held position of providing different levels of market access to different members. It had earlier opted for a three-tier structure in which it offered tariff elimination on 42.5 per cent of traded goods to China, Australia and New Zealand (the countries with which India doesn't have FTAs), followed by 65 per cent to South Korea and Japan with which it has FTAs. The highest level of 80 per cent was to 10-member ASEAN.

The thought of moving towards tariff elimination for Chinese products, even when it was expected that it would be restricted to 42.5 per cent of traded items, was enough to give sleepless nights to Indian industry. India did make a brave attempt to move away from a zero-duty regime to one of low tariffs, where duties would be reduced but not eliminated, by moving a proposal in the Jakarta meeting in July, but it was rejected. The proposal not only went against RCEP's idea of a free trade bloc, but was also not in line with India's trade pacts with ASEAN, Japan and South Korea, where tariffs are being eliminated on a wide range of products.

Was it wise for India to agree to equal market access for all?

The question which strikes is if ASEAN, which has been making a case for tariff elimination on almost all traded items, keeps up the pressure, will India be ready to offer zero tariffs to China for 80 per cent of the items or even more? It can rightly be presumed, that even if Indian negotiators are able to offer some resistance, it is highly improbable that they would be able to lower the overall ambition significantly.

One positive aspect is that India has managed to make RCEP countries tentatively agree to a different/longer implementation period for the tariff cuts for different countries and different products depending on sensitivities. This means that if India agrees to eliminate tariffs for most products from ASEAN over ten years, it might get a longer time period to do in the case of China, especially for sensitive items such as steel. But it is also true, that there is an upper limit beyond which the implementation period cannot be staggered, and tariffs will ultimately have to go. This is where we need to think seriously and analyse whether our industry is powerful enough to face zero-tariff competition from China even if the tariff elimination takes place gradually?

What is India getting in return?

India already has FTAs with ASEAN, Japan and South Korea, where commitments to eliminate tariffs on a large number of items have already been made. So gains from goods trade would certainly be limited with its existing FTA partners in the RCEP group. Australia and New Zealand, which whom India does not have any FTAs; already have low tariffs on goods. The Chinese market is big, but it is not a big attraction for the Indian industry which stands to gain just a fraction of the market there compared to what the Chinese would wrest on their domestic turf.

So it's quite evident that India's gains from the RCEP would mostly lie in the service sector. Indian negotiators have been taking pride in stating that due to their insistence, services would be part of a single undertaking and not carved off as a separate agreement as was done in the case of the FTA with ASEAN. India had got a raw deal in services in the India-ASEAN FTA, as the pact on goods had already been signed and it did not have any bargaining chips left. So this time Indian negotiators became cautious not to make the mistake again in RCEP.

But sadly, despite efforts by India to get RCEP members to give substantial offers in services, especially for professionals, the offers made so far are insignificant. Having a toothless pact on services in RCEP would not justify India's participation in a trade pact where China is to be ultimately provided unrestricted market access for most products.

A very important reason making India keen to be a part of RCEP, despite the presence of China in the group, is the fact that two other mega regional trade pacts- the Trans Pacific Partnership (TPP) and the Trans- Atlantic Trade & Investment Partnership (TTIP) are simultaneously being forged and India is not a part of either. India seems to worry about the fact that if it is excluded from all major regional trade pacts, it would become uncompetitive in its traditional markets, where its rivals would get access at lower import duties.

Is the fear real?

The TPP – which is a US-led group of 12 Pacific Rim countries has been signed but is nowhere near being ratified even in the US. It is unlikely that the incumbent President will be ratifying in his remaining few months of President ship. Moreover both the front-runners for the presidential race have also voiced their opposition to the deal.

The TTIP-the proposed FTA between the US and the EU-too is in trouble. Thus India need not feel threatened by other trade blocks while it is negotiating the RCEP. Nor should it fear losing market access in the RCEP region in the absence of a deal, as it already has FTAs with most member countries.

Trade Trend Analysis

India's total engineering exports to ASEAN during September 2016 stood at 608.7 USD million which is 12.2% of the total global engineering exports of India during the same.

India's engineering exports to ASEAN in September 2016 increased by almost 19% compared to September 2015. Singapore recorded huge negative growth in September 2016 over September 2015 among the ten countries.

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

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

Table1: Top Five ASEAN destinations for Indian Engineering Exports

Countries	Eng. Exports in September 2015 (USD Million)	Eng. Exports in September 2016 (USD Million)	Growth (%)
MALAYSIA	84.09	185.07	120.10
VIETNAM	61.87	98.27	58.83
INDONESIA	74.36	93.11	25.21
THAILAND	62.41	78.15	25.23
SINGAPORE	172.83	77.07	-55.41

Source: DGCI&S, Government of India

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

Table2: Top Ten Engineering Panels exported to ASEAN

Panels	India's Exports in September 2015 (USD Million)	India's Exports in September 2016 (USD Million)	Growth (%)
Iron and Steel	28.90	105.03	263.43
Copper and products	8.86	83.82	846.58
Aluminium and products	23.82	50.91	113.73
Industrial Machinery	50.71	48.66	-4.04
Electric Machinery a	30.82	45.56	47.83
Motor Vehicle/cars	50.18	42.28	-15.73
Auto Components/Part	32.26	38.13	18.17
"Aircrafts Spacecrafts"	7.82	29.38	275.71
Products of Iron	24.27	20.97	-13.59
"Nuclear Reactors "	10.31	20.83	101.95

Source: DGCI&S, Government of India

News in Focus

➤ India up for tough fight at RCEP

The visit of Prime Minister Narendra Modi to Laos for the Asean-India Summit this week had been expected to provide speed to the Regional Comprehensive Economic Partnership (RCEP) agreement.

However, RCEP leaders failed to come up with a deadline for the mega regional trade pact that has only become more complicated after 14 rounds of negotiations and four ministerial meetings.

For India, RCEP presents a decisive platform to influence its strategic and economic status in the Asia-Pacific region. Expected to be the largest regional trading bloc in the world, accounting for nearly 45 per cent of the global population with a combined gross domestic product of \$ 21.3 trillion, it will also bring the biggest economies of the region into a regional trading arrangement.

However, a tough fight awaits India at the next round of negotiations after its latest move regarding a single rate of tariff reduction did not elicit positive response from other nations at the last meet, according to trade experts and officials alike.

CHINA KEY TOWARDS NEGOTIATIONS?

- [India](#) has higher tariff regime which has always forced it to reduce tariffs more than other partner nations
- [India](#) is cautious about tariff reduction with [China](#) as it has a large [trade](#) deficit with the country. India's goods [trade](#) deficit with [China](#) has surged from \$1.1 billion in 2003-04 to \$52.7 billion in 2015-16
- The period for phasing out tariff lines from [China](#) could be 20-30 years, to ensure that the Indian industry has time to improve its competitiveness
- Steel and heavy industries are apprehensive that [China](#) could use [RCEP](#) to try and gain more market access in [India](#) even as it is unwilling to import more

More Information >> Source: http://www.business-standard.com/article/economy-policy/india-up-for-tough-fight-at-rcep-116091000780_1.html

➤ **PM Modi to arrive in Laos tomorrow for ASEAN-India, East Asia meet**

Maritime security, terrorism, economic and socio-cultural cooperation will be on the agenda of Prime Minister Narendra Modi at the 14th ASEAN-India Summit and the 11th East Asia Summit in Vientiane, in the Laotian capital.

Bilateral meetings with fellow world leaders to discuss key issues are also included in the schedule of Prime Minister Modi, who arrives in Vientiane on September 7 to attend the two Summits -both of which are scheduled for Thursday.

The Summits will be attended by Heads of State/Government of the 10 ASEAN and 18 East Asia Summit Participating Countries respectively.

More Information >> Source: <http://indianexpress.com/article/india/india-news-india/pm-modi-to-arrive-in-laos-tomorrow-for-asean-india-east-asia-meet-3017060/>

➤ **Modi, Abe meet focusses on trade, strengthening counter terror operations**

India and Japan on Wednesday pledged to strengthen ties in the key areas of counter terrorism, civil nuclear cooperation, trade and investment as Prime Minister Narendra Modi held talks with his Japanese counterpart Shinzo Abe in Vientiane.

Prime Minister Modi, in his talks at the National Convention Centre here, conveyed his condolences to Abe for the Japanese lives lost in the recent terror attack in Bangladesh in which 22 people were killed after Islamist militants stormed a cafe popular with foreigners. Abe said Japan was not going to succumb to terrorism and expressed the desire to further strengthen cooperation with India in the area of counter-terrorism, External affairs Ministry Spokesman Vikas Swarup said of the nearly 45 minutes- long meeting.

More Information >> Source: <http://www.dnaindia.com/india/report-modi-abe-meet-focusses-on-trade-strengthening-counter-terror-operations-2252849>

➤ **Govt taking a relook at free trade agreements: Nirmala**

Government is reviewing FTAs that India has signed with trading partners after the industry voiced concerns about benefits of these pacts for domestic players.

Commerce and Industry Minister Nirmala Sitharaman said many industry representatives have conveyed that free trade agreements (FTAs) signed earlier have not necessarily benefited Indian companies more.

She said one reason is inadequate awareness about those pacts.

"Our exporters have not had the opportunity to fully exploit the FTAs to their favour. As a result, many exports that could have happened to these countries (like Asean) have really not happened. That is one of the reasons," she said here at The Economist India Summit 2016 here.

"So, we are reviewing the FTAs, along with industry sectors. Industry is participating in it."

India has implemented these agreements with several countries, including Asean, Japan, Korea and Singapore. It is also negotiating similar pacts with several regions, including the European Union, Australia, New Zealand and Canada.

For example, the domestic steel industry has time and again raised the issue of increasing imports from Japan and Korea and had demanded removal of this commodity from the purview of the FTA.

More Information >> Source: <http://timesofindia.indiatimes.com/city/delhi/Govt-taking-a-relook-at-free-trade-agreements-Nirmala/articleshow/54048662.cms>

➤ **Indian economic, transport ties 'very important' for ASEAN: Singapore's PM Lee**

India is a "very important" partner to the Association of Southeast Asian Nations (ASEAN) when it comes to economics and connectivity, said Singapore Prime Minister Lee Hsien Loong on Thursday (Sep 8).

At the ASEAN-India Summit, held on the final day of the region's bloc meetings, Mr Lee said both the Indian and ASEAN markets were "large and vibrant economies".

"If both sides can work together to integrate their economies to enhance trade and investment flows, we will have a big impact (on) Asia's growth," he declared, pointing to the ASEAN-India Free Trade Area (AIFTA) and the Regional Comprehensive Economic Partnership (RCEP) as pathways for both parties to do so.

Said Mr Lee: "The AIFTA remains the main vehicle to drive ASEAN-India economic cooperation. It was signed six years ago, and it is timely to review the Trade in Goods (TIG) Agreement."

He then identified the RCEP – a proposed free-trade agreement between ASEAN and Australia, China, India, Japan, South Korea and New Zealand – as possessing the potential to transform the East Asian region into a "single and integrated" market comprising nearly half of the world's population and about a third of its current annual GDP.

More Information >> Source: <http://www.channelnewsasia.com/news/singapore/indian-economic-transport-ties-very-important-for-asean/3110616.html>

➤ **ASEAN is central to India's 'Act East' policy: PM Modi in Laos**

Prime Minister Narendra Modi Thursday stressed the importance of India's 'Act East' policy and said ASEAN, the association of southeast Asian nations, was central to India's objective in that direction. The Prime Minister was speaking at the 14th ASEAN Summit in Vientiane, Laos.

"Our ties are a source of balance and harmony in the region. The substance of our strategic partnership covers economic, security, socio-culture...ASEAN-India Plan of Action (2016-20) has served us well in fulfilling our objectives. We have already implemented 54 out of 130 activities have already been implemented," said PM Modi.

The PM added that enhancing the connectivity in all its dimensions – physical, digital, economy, institutional and cultural- has been at the heart of India's strategic partnership with ASEAN. "In face of growing traditional and nontraditional challenges, political security co-operation is a key emergent pillar of our relationships," said PM Modi.

More Information >> Source: <http://indianexpress.com/article/india/india-news-india/asean-is-central-to-indias-act-east-policy-pm-modi-in-laos-3019730/>

➤ **ASEAN is central to India's 'Act East' policy: PM Modi in Laos**

President Joko "Jokowi" Widodo has urged ASEAN and India to enhance cooperation in the small and medium enterprises (SMEs) sector, given that more than 80 percent of economic drivers in both regions are SMEs.

"We need to push SMEs to enhance innovation and their digital economy," Jokowi said during the 14th ASEAN-India Summit in Vientiane on Thursday.

"We also need to support the ASEAN-India Business Council as a forum and networking facility for economic actors in private sectors," he added.

During the summit, President Jokowi stressed the importance of capacity building and technical assistance for SMEs in ASEAN as part of efforts to strengthen the regional block's cooperation with its counterparts, such as the relationship with India, which has been maintained for 24 years so far.

During the 20th anniversary of ASEAN and India Relations in December 2012, the two regions agreed to strengthen connectivity in a bid to improve regional integration.

"I'm sure optimal connectivity will boost cooperation in trade, investment and tourism including people-to-people contact," Jokowi said.

ASEAN-India trade value amounted to US\$59.7 billion in 2015, with Indian investment to ASEAN countries recorded at \$605.9 billion in 2014, before doubling to \$1.25 trillion in 2015.

More Information >> Source: <http://www.thejakartapost.com/news/2016/09/09/jokowi-calls-on-asean-india-to-enhance-cooperation-on-smes.html>

➤ **PM attends East Asia Summit, ASEAN+1 Summits**

At the 14th ASEAN-India Summit, both sides agreed to continuously boost trade and investment towards a 200 billion USD value by 2022 from 58.7 billion USD made in 2015.

Indian Prime Minister Narendra Modi affirmed that India gives ASEAN an important position in its Act East policy and wants to become a trusted partner of the bloc to boost peace and prosperity in the region.

India will prioritise strengthening infrastructure connectivity, digital connectivity and people-to-people exchanges with ASEAN, he added.

He also announced the additional provision of 50 million USD for the ASEAN-India Cooperation Fund and wanted to speed up the implementation of digital and infrastructure connectivity projects through the use of India's 1-billion-USD credit.

During the fourth ASEAN-US Summit, the two sides appreciated practical developments in the ASEAN-US relationship since it was lifted to a strategic partnership level in November 2015.

ASEAN countries appreciated the role of the US – an important partner of the bloc – in building the ASEAN Community, promoting peace and security, forming the regional architecture and cooperating in addressing global challenges.

In 2015, trade between ASEAN and the US reached 212 billion USD, accounting for 9.3 percent of ASEAN's trade turnover. US investors also poured 12 billion USD into the bloc.

Meanwhile, at the 11th East Asia Summit (EAS), the countries reaffirmed the importance of the EAS as a forum for their leaders to talk political, security and economic issues of mutual concern and interests to intensify mutual trust and understanding and help promote peace, stability, cooperation and prosperity in East Asia.

More Information >> Source: <http://english.vietnamnet.vn/fms/government/163402/pm-attends-east-asia-summit--asean-1-summits.html>

➤ **PM Prayut proposes Act West ASEAN-India cooperation**

Prime Minister Gen Prayut Chan-o-cha today attended the last day of the 28th and 29th ASEAN Summit in Vientiane, Laos. The morning session started with the 14th ASEAN-India summit at the National Conference Center.

The PM praised India's Act East strategy which prioritized cooperation with the South East Asia region, noting the strategic partnership with ASEAN will be crucial to the security and prosperity of the region.

More Information >> Source: <http://news.thaivisa.com/thailand/pm-prayut-proposes-act-west-asean-india-cooperation/153475/>

➤ **ASEAN: India emphasised on peaceful resolution of South China Sea dispute**

India emphasised on the importance of maintaining peace, security and stability, unimpeded commerce, freedom of navigation and overflight above the disputed South China Sea at the recently-concluded Association of Southeast Asian Nations (ASEAN) Summit in Laos.

A statement issued by Laos Prime Minister Thongloun Sisoulith, who chaired the 14th India-ASEAN Summit, said, "India also underscored the importance for the states concerned to resolve disputes through peaceful means in accordance with international law, including the 1982 United Nations Convention on the Law of the Sea (UNCLOS)."

More Information >> Source: <http://indianexpress.com/article/india/india-news-india/asean-india-emphasised-on-peaceful-resolution-of-south-china-sea-dispute-3023103/>

➤ **India's 'Act East' policy needs flesh on the bone**

In the fortnight past, I've had the privilege of participating in conferences in Singapore and New Delhi, where Indian political leaders and top officials sought to project their government's renewed policy emphasis on the Indian Ocean and East Asia.

The refrain is similar, and familiar: The Look East policy, now tweaked as Act East policy, is a real thing. South-east Asia, embodied by Asean, remains at the "core" of this policy, which extends to South Korea and Japan, Australia, and even the Pacific Islands. As for the Indian Ocean, Prime Minister Narendra Modi last year described it as "at the top of our policy objectives".

There are subtexts, of course, to all this. The first is that India, with its largely peaceful and law-abiding ways, is the model to follow for a region where the dominant power tends to scoff at international law when its interests collide with it. Another is that dominance of the Indian Ocean belongs to the nation the expanse of water is named after.

More Information >> Source: <http://www.straitstimes.com/opinion/indias-act-east-policy-needs-flesh-on-the-bone>

➤ **PM Modi goes bold on the Act East front**

India's Act East Policy has been given a fillip with Prime Minister Narendra Modi's recent visits to the countries of the East and Southeast Asian regions. On 8 September, he concluded a visit to Laos, where he participated in the 14th India-ASEAN (Association of Southeast Asian Nations) Summit and the 11th EAS (East Asia Summit) meetings. Before Laos, he was in Hangzhou, China to participate in the 11th G20 summit on 4-5 September. Moreover, on 3 September, 2016, Prime Minister Modi became the first Indian Prime Minister to pay a state visit to Vietnam after former Prime Minister Atal Bihari Vajpayee's visit in 2001.

In 2015, he had paid state visits to Singapore, China, Mongolia, and South Korea. In August 2016, Indian Minister of External Affairs, Sushma Swaraj also visited Myanmar, which has been perceived as an attempt to reach out to Myanmar. India's reaching out to the East Asian and Southeast Asian countries demonstrates its increasing economic and diplomatic footprints in the Asia-Pacific region aimed at giving a much-needed impetus to the Act East policy.

During his visit to Laos, Modi not only represented India's case in the ASEAN-India Summit but also boldly put forth Indian position at the high-table of the East Asia Summit, which includes the ten member countries of ASEAN and eight major stakeholders in region—the US, China, Japan, South Korea, Russia, India, Australia and New Zealand. On the margins of the summit meetings, he also met

leaders including Japan's Prime Minister Shinzo Abe, US President Barack Obama, South Korean President Park Geun-hye, and Myanmar State Counsellor Aung San Suu Kyi.

During the East Asia Summit meeting, Modi boldly put forward India's firm stand on terrorism. Without naming Pakistan, he said, "There is one country in our neighbourhood whose competitive advantage rests solely in producing and exporting terrorism.

More Information >> Source: <http://www.sundayguardianlive.com/opinion/6481-pm-modi-goes-bold-act-east-front>

EEPC India ASEAN Territorial Newsletter

Contact: Priyanka Chakraborty

Email: pchakraborty@eepcindia.net

Phone no: 033-40120312