

# Territorial NEWSLETTER

## ASEAN + 5

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

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### Chairman's Pen



Leaders at the sixth Regional Comprehensive Economic Partnership (RCEP) Ministerial Meeting held in August 2018 appeared to have taken steps towards concluding the deal as early as possible. With a possible endgame in sight, India's stance in the negotiations should be of utmost interest. The viability of the proposed grouping hinges on India's response to the more active RCEP participating countries' calls for a highly ambitious trade liberalisation agenda.

India has long been arguing that RCEP negotiations must put goods and services negotiations on parallel tracks. This is in keeping with India's understanding that there are gains to be had in the services sector, such as loosening restrictions on labour mobility, that can soften the impact of granting market access concessions in the goods sector. But there are no clear indications from the other RCEP participating countries that they are willing to include services in the negotiating agenda in the manner that India is seeking.

Despite the concerns, the government must take into account the deeper strategic pitfalls of either slowing down India's RCEP engagement or walking out of the talks at this stage.

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

**Ravi Sehgal**

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



Negotiations on the Regional Comprehensive Economic Partnership, among 16 Asian and Pacific Ocean countries, have entered a decisive phase. Initially in 2015, India's offer to China was elimination of tariffs on 42.5 per cent of its traded products, while for other countries India was willing to offer between 65–80 per cent tariff elimination. Since then, India has indicated that its tariff elimination offers would be 74 per cent for China, Australia and New Zealand, and 86 per cent for ASEAN. These offers fall short of

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the 90–92 per cent tariff elimination that most other participating countries are seeking in their aim to achieve a ‘high quality’ agreement.

India’s economic agreements with RCEP participating countries like ASEAN, Japan and South Korea, reflects deteriorating balance of trade for India. India’s overall trade deficit with the RCEP participating countries looks far worse. In such a scenario India needs to analyse the pros and cons of going ahead with RCEP very skillfully. In order for India to be a willing partner in the regional integration project in Asia, Indian policymakers and businesses must work towards a quick turnaround of the domestic economy.

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

**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 and beyond

The Centre seems to be uncomfortable with the general drift of negotiations in the 16-member Regional Comprehensive Economic Partnership (RCEP). The reasons are not too far to seek. The RCEP is led by China, with the 10 ASEAN countries, Australia, New Zealand, India, Japan and South Korea as partners. India’s trade engagement with these countries has not been favourable, when seen in terms of the trade deficit.

A recent NITI Aayog “note” on Free Trade Agreements and their “costs” points out that India’s trade deficit with the RCEP group (it already has FTAs with the ASEAN, South Korea and Japan) has risen from \$9 billion in 2004-05 to over \$80 billion today. Its trade deficit with China alone was \$63 billion in 2017-18, or about 60 per cent of its overall trade deficit. The bilateral trade deficit has risen exponentially from \$0.6 billion in 2000-01 to current levels, and there are no signs of this trend reversing. This surge in Chinese imports — from electrical and electronic goods, plastics, chemicals, boilers and mechanical appliances to toys and stationery items — has undeniably hurt Indian manufacturing, without helping it move up the technology and productivity ladder.

A government committed to ‘Make in India’ cannot be expected to embrace a deal that entails zero tariffs on over 70 per cent of goods traded with China, and a higher level of openness with ASEAN. Trying to drive home

the point that FTAs in general have not paid off, the NITI Aayog paper says that “exports to FTA countries have not outperformed exports to the rest of the world.”

While this is a protectionist view, it is also a product of both domestic and global circumstances. Given the discontent over lack of jobs and agrarian distress, with the general elections less than a year away, this cannot be an opportune time to throw open sensitive sectors such as dairy products. If the RCEP countries are keen on a slice of India’s market, they must sweeten the deal.

The push for trade blocs has acquired a new urgency, with the Trump administration unleashing a trade war of sorts against China and even the EU. The RCEP countries, which account for 25 per cent of global GDP and 30 per cent of global trade, could act as a countervailing influence. India too has reversed its years-long policy of reducing tariffs by raising them across the board in the last Budget. Meanwhile, Malaysia’s Prime Minister Mahathir Mohammad has mooted an ‘East Asian Economic Caucus’ to offset China’s economic might. India should seriously consider the impact of any exit from RCEP on its links to global supply chains. The East Asian Tigers were, like India, remarkably protectionist economies, but they opened up at the right time, and at the right pace. India could still learn a few lessons, given its botched experience in industrial development.

## Trade Analysis & Statistics

### Trade Analysis & Statistics

India’s total engineering exports to ASEAN+5 country wise during April-September of 2018-19 stood at US\$ 7.43 billion. Some major highlights of the cumulative engineering exports from India to ASEAN+5 during April-September 2018-19 are given below:

- ❖ During April-September 2018-19, India’s engineering exports to ASEAN+5 stood at US \$ 7430.55 million which is 18.4% of the total global engineering exports of India during the same period.
- ❖ India’s cumulative engineering exports to ASEAN+5 during April-September 2018-19 have also increased by 1.3% in comparison to the previous period.
- ❖ Singapore topped the list once again for Indian cumulative engineering exports during April-September 2018-19 and South Korea for monthly exports for September 2018. Major items of export to South Korea in September 2018 are Iron & Steel, Aluminium and aluminium products, Lead and lead products etc.
- ❖ Cambodia recorded the highest growth of 401.3% in April-September 2018-19 compared to April-September 2017-18 among the fifteen countries.
- ❖ Lao ranked second in growth, recording a growth of 214.3% in April-September 2018-19 compared to April-September 2017-18 among the fifteen countries.

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

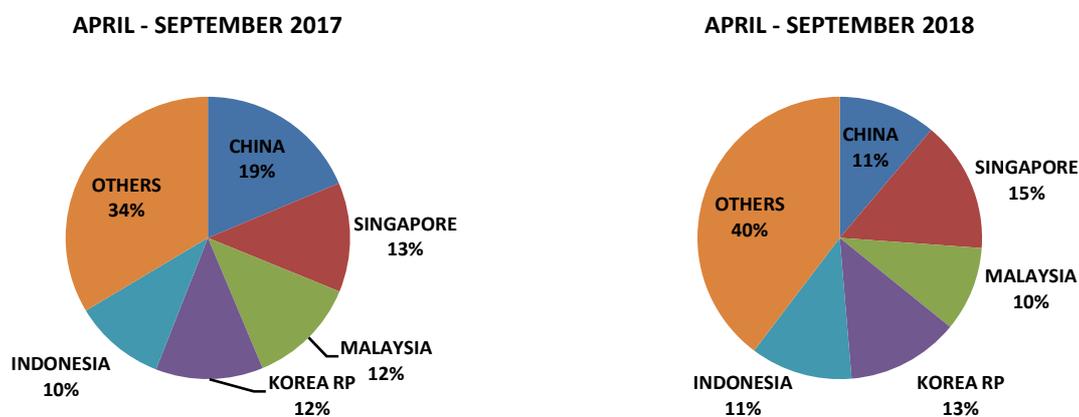
Values in US\$ million

COUNTRY	April-September 2017-18	April-September 2018-19	Growth (%)
SINGAPORE	920.76	1116.30	21.2
KOREA RP	896.75	953.49	6.3
INDONESIA	767.64	861.22	12.2
CHINA	1368.31	825.03	-39.7
THAILAND	591.02	813.76	37.7

Source: DGCI&S, Government of India

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

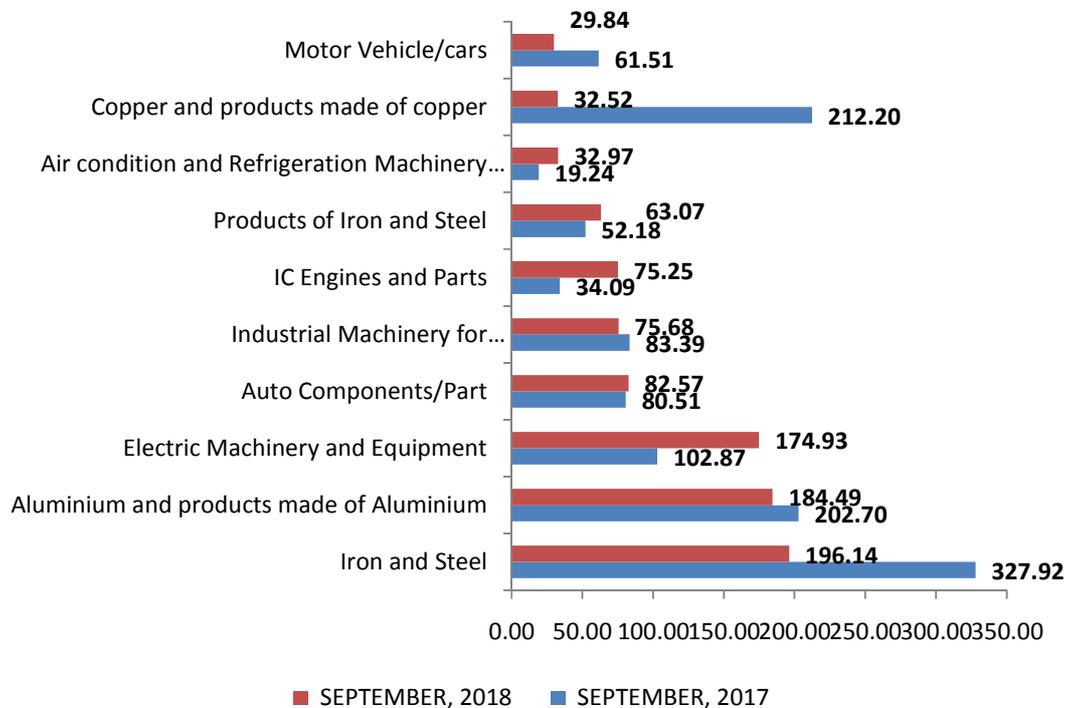
**Fig 3: Change in Engineering Export among the top 5 ASEAN+5 countries (April-September 2018 viz-a-viz April-September 2017)**



Source: DGCI&S, Government of India

Top 10 engineering panels exported to ASEAN+5 during September 2018 viz-a-viz September 2017 are provided in bar diagram.

**Fig 4: Top 10 engineering panels exported to ASEAN+5 in September 2018 viz-a-viz September 2017**



Source: DGCI&S, Government of India

## News in Focus

### ❖ Trade expansion likely to boost India-Vietnam ties

As India and Vietnam celebrate 45 years of bilateral relations by upgrading their Comprehensive Strategic Partnership, the future seems to hold a lot of potential for the two nations. The rising power of India, not just in South Asian region but with considerable clout in the Indo Pacific, will be more balanced than before, said Vietnamese envoy to India, Ton Sinh Thanh.

India is one of the three nations with which Vietnam has Comprehensive Strategic Partnership, the other two being China and Russia. It was during Prime Minister Narendra Modi's visit two years ago that the partnership was elevated. Vietnam has Strategic Partnership with 11 countries. Vietnam boasts of US\$2,100 per capita per annum.

Read more: <http://tehelka.com/trade-expansion-likely-to-boost-india-vietnam-ties/>

### ❖ **India must seize its chance to cement ties with Malaysia as Mahathir Mohamad seeks to counter China's trade hegemony**

It is time India seriously engaged veteran politician and Malaysia's new Prime Minister Mahathir Mohamad. The 93-year-old Mahathir's unexpected second innings in Malaysia's highest political office promises to be very interesting, particularly for his country's relationship with China. He is currently on a five-day official tour of China, first since becoming prime minister. He is not shy about expressing his opinions.

One of the major reasons attributed to the stunning electoral triumph of the Opposition coalition he formally led was the rising national debt and gross financial mismanagement of former prime minister Najib Razak and his family. Another one was the China factor. While outside the circle of power, Mahathir's stinging criticism of Chinese investment deals with Malaysia during his predecessor's tenure underpinned his foreign policy agenda. Throughout his electoral campaign, he maintained that he would renegotiate those agreements with China which were found lopsided against Malaysia.

Read more: <https://www.firstpost.com/world/india-must-seize-its-chance-to-cement-ties-with-malaysia-as-mahathir-mohamad-seeks-to-counter-chinas-trade-hegemony-5017151.html>

### ❖ **Singapore seeks India's help in early conclusion of RCEP negotiations**

Singapore has sought India's cooperation in conclusion of early negotiations of Regional Comprehensive Economic Partnership (RCEP), a rule based trading framework comprising ten ASEAN nations and their six FTA partners.

The ladder and snake negotiations between 16 RCEP countries with competing and conflicting interests that went on for two days till Saturday, did make some forward movement with Singapore's Minister of Trade and Industry Chan Chun Sing hoping some resolution by the year end.

Earlier, Minister-in-Charge of Trade Relations S Iswaran, during his visit to India, also urged Prime Minister Narendra Modi for an early conclusion of RCEP talks.

However, the Indian Minister for Commerce and Industry Suresh Prabhu made clear that negotiations could well extend into 2019 as there was no agreement yet on several sticky issue such as opening of Indian market for Chinese goods, which are already flooded, and extending Indian service sector to the RCEP countries.

Read more: <https://www.connectedtoindia.com/singapore-seeks-indias-help-in-early-conclusion-of-rcep-negotiations-4674.html>

## TBT Notifications

- ✓ **Thailand has issued standard on safety and energy efficiency requirements for household refrigerator and refrigerator-freezer.**

This has reference to two TBT notifications- G/TBT/N/THA/519 and G/TBT/N/THA/520 dated 16th August 2018, issued by the Thai Industrial Standards Institute (TISI), Ministry of Industry. The products mentioned in the notification falls under the HS Code 8418.

**For more details, please follow the links:**

<http://tbtims.wto.org/en/RegularNotifications/View/145127?FromAllNotifications=True>

- ✓ **Thailand has issued draft standard for Cold-formed Structural Steel Sections for General Structure**

This has reference to TBT notification no G/TBT/N/THA/521 dated 27th August 2018, issued by the Thai Industrial Standards Institute (TISI), Ministry of Industry. The products mentioned in the notification falls under the HS Code 7216.

**For more details, please follow the links:**

[https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True&CatalogueIdList=247751,244286,247708,244259,244369,245163,247739,247747,247802,247723&CurrentCatalogueIndex=2&FullText](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True&CatalogueIdList=247751,244286,247708,244259,244369,245163,247739,247747,247802,247723&CurrentCatalogueIndex=2&FullText)

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