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ASEAN-India Centre at RIS

# AIC COMMENTARY

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## Review of ASEAN-India FTA in Goods: Broad Contours and the Next Steps

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*ASEAN and India are going to celebrate 30 years of relations in 2022. Trade has remained an important pillar of ASEAN-India partnership over the years. The ASEAN-India FTA in Goods, implemented in January 2010, is entering into its 11<sup>th</sup> year, and the time is ripe to review and recast it in the light of the new world order pulled open by the pandemic. This commentary provides the broad contours around which the review of ASEAN-India FTA may focus.*

### 1. Introduction

India's Act East Policy (AEP) is centered around its relations with the ASEAN (Association of Southeast Asian Nations). ASEAN and India have strengthened efforts in the fight against pandemic and have bolstered their commitments towards challenging issues in the region (ASEAN Secretariat, 2021). India and ASEAN have witnessed exemplary cooperation in various areas and with the 18<sup>th</sup> annual summit held on 28 October, 2021.

Trade and investment is an important area in ASEAN-India economic cooperation whereas the ASEAN-India Trade in Goods Agreement (AITIGA) has been at the core of deliberations consistently for over a decade now. As the AITIGA completes a decade of governing trade between ASEAN and India, trade ministers from both sides have discussed the need for a review.

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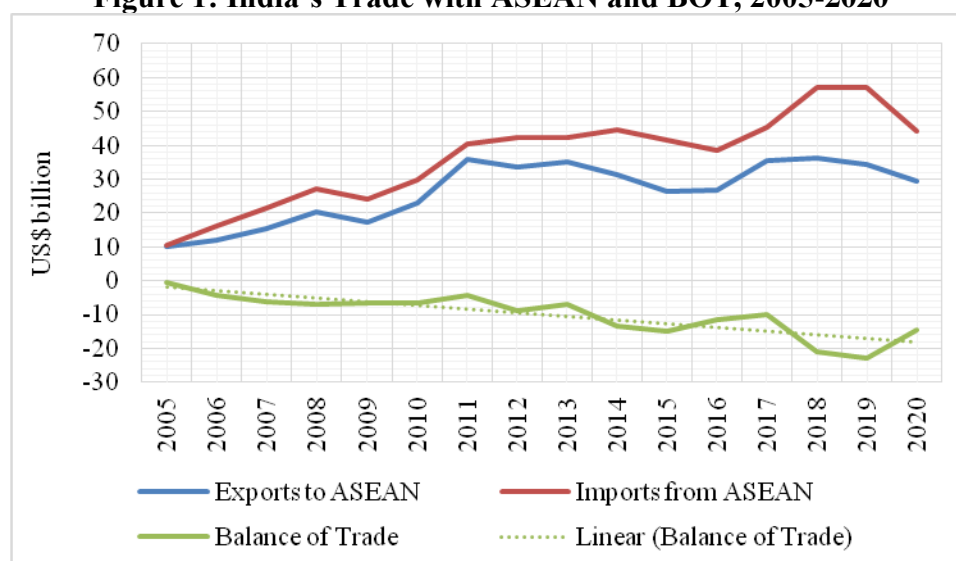
The motive of the exercise would be to recast the FTA more suitable for businesses in terms of user friendliness, simplicity and trade facilitation. The review exercise was agreed upon by the trade ministers of the 10 ASEAN member states (AMS) and India at the 17<sup>th</sup> ASEAN-India Economic Minister’s consultations, convened on 30 August, 2020 (ASEAN Secretariat, 2020). The growth in ASEAN-India economic ties comes from the enhanced trade and investment following the signing and implementation of the AITIGA. Before the pandemic struck in 2019, merchandise trade and investment flow between ASEAN and India stood at US\$ 97 billion and US\$ 2 billion, respectively making India the sixth largest trade partner of ASEAN and eighth largest FDI source (ASEAN Secretariat, 2020).

**Table 1: India’s Trade with ASEAN Member States, 2010-11 and 2020-21**

| Country            | Export          |                 |             | Import          |                 |             |
|--------------------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
|                    | 2010-11         | 2020-21         | CAGR        | 2010-11         | 2020-21         | CAGR        |
|                    | (US\$ million)  |                 |             | (US\$ million)  |                 |             |
|                    |                 |                 | (%)         |                 |                 | (%)         |
| <b>Brunei</b>      | 23.07           | 62.91           | 10.55       | 234.17          | 329.25          | 3.466       |
| <b>Cambodia</b>    | 66.94           | 168.86          | 9.69        | 8.01            | 39.35           | 17.25       |
| <b>Indonesia</b>   | 5,700.78        | 5,026.21        | -1.25       | 9,918.63        | 12,470.17       | 2.31        |
| <b>Lao PDR</b>     | 13.11           | 27.34           | 7.62        | 0.22            | 1.70            | 22.68       |
| <b>Malaysia</b>    | 3,871.17        | 6,057.68        | 4.57        | 6,523.58        | 8,373.05        | 2.52        |
| <b>Myanmar</b>     | 320.62          | 772.56          | 9.19        | 1,017.67        | 526.79          | -6.37       |
| <b>Philippines</b> | 881.10          | 1,457.30        | 5.16        | 429.39          | 572.47          | 2.92        |
| <b>Singapore</b>   | 9,825.44        | 8,675.50        | -1.23       | 7,139.31        | 13,304.92       | 6.42        |
| <b>Thailand</b>    | 2,274.21        | 4,237.59        | 6.42        | 4,272.09        | 5,682.27        | 2.89        |
| <b>Vietnam</b>     | 2,651.44        | 4,999.64        | 6.55        | 1,064.90        | 6,120.66        | 19.11       |
| <b>ASEAN</b>       | <b>25627.89</b> | <b>31486.18</b> | <b>2.08</b> | <b>30607.96</b> | <b>47436.29</b> | <b>4.50</b> |

Source: Export Import Data Bank, Department of Commerce, India

**Figure 1: India’s Trade with ASEAN and BOT, 2005-2020**



Source: Authors’ representation of data from DOTS, IMF

Post the implementation of the AITIGA in January 2010, during 2010 to 2020, merchandise trade between ASEAN and India has shown an upward movement, with exports growing at a compounded rate of 2.08 per cent and imports at 4.5 per cent (Table 1). Albeit, during the same period, imports have shown stronger growth especially from AMS like Cambodia, Singapore and Vietnam. Illustrated in Figure 1, India's trade deficit with ASEAN has remained a point of concern. Apart from the burgeoning trade deficit, several issues such as rules of origin, non-tariff measures, among others, have remained unresolved. Growing trade anomalies, therefore, have led India to seek a review of the AITIGA. This was also captured by Ravi (2020), who, for example, argued for a comprehensive review of AIFTA.

## 2. Review of ASEAN-India FTA in Goods: Identifying the Contours

There is a huge potential between ASEAN and India in realizing increased bilateral trade in coming years. Table 2 provides substantial evidence on the potential of trade between ASEAN and India. With the AITIGA touching its 11<sup>th</sup> year of commencement, it can be seen that the number of products traded between AMS and India have increased tremendously.

**Table 2: Number of Products Traded between India and AMS, pre and post FTA**

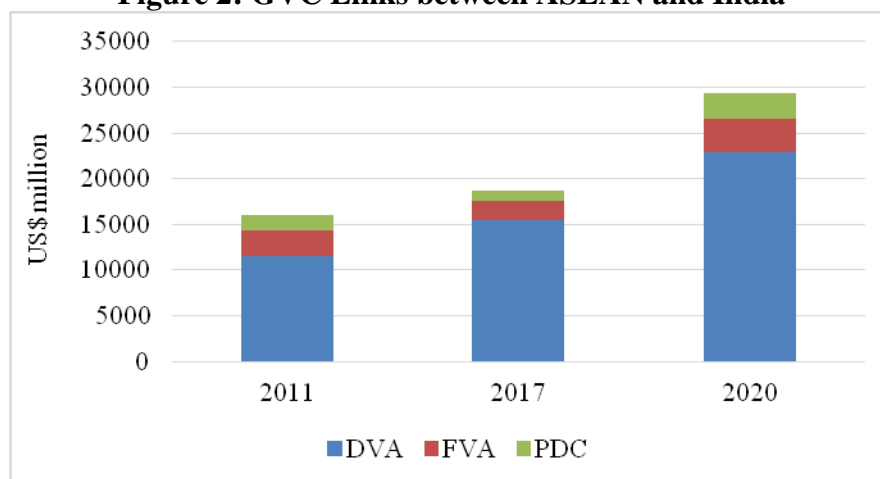
| Partner Country    | Export  |         | CAGR (%) | Import  |         | CAGR (%) |
|--------------------|---------|---------|----------|---------|---------|----------|
|                    | 2010-11 | 2020-21 |          | 2010-11 | 2020-21 |          |
| <b>Indonesia</b>   | 3022    | 3543    | 1.60     | 2221    | 2052    | -0.78    |
| <b>Malaysia</b>    | 4235    | 4595    | 0.82     | 3119    | 2501    | -2.18    |
| <b>Philippines</b> | 2277    | 3013    | 2.84     | 910     | 738     | -2.07    |
| <b>Singapore</b>   | 4405    | 4620    | 0.48     | 2768    | 4035    | 3.84     |
| <b>Thailand</b>    | 3581    | 4179    | 1.55     | 3546    | 3023    | -1.58    |
| <b>Cambodia</b>    | 533     | 1062    | 7.14     | 70      | 211     | 11.66    |
| <b>Brunei</b>      | 334     | 838     | 9.64     | 11      | 39      | 13.49    |
| <b>Lao PDR</b>     | 121     | 271     | 8.4      | 7       | 19      | 10.5     |
| <b>Myanmar</b>     | 1122    | 2383    | 7.82     | 159     | 262     | 5.12     |
| <b>Vietnam</b>     | 2485    | 3447    | 3.4      | 1306    | 1963    | 4.16     |

Source: Authors' own based on Export Import Data Bank, Department of Commerce, India

In the post-FTA period, the number of products exported between India and Brunei Darussalam has registered the largest climb. A similar increase in products exported is visible with AMS such as Cambodia, Myanmar, Lao PDR and Vietnam. However, with the rich and more prosperous member states like Indonesia, Malaysia, the Philippines, Singapore and Thailand, the increase in products exported has only remained modest. That being said, it is important to shine light on the change in trade of negative list items. The imports of items placed in India's exclusion list have gone down from US\$ 23.74 billion in 2010-11 to US\$ 18.79 billion in 2020-21. However, for certain parts and components of the transport and vehicle equipment sector, the imports have risen regardless of those falling out of any tariff reduction or elimination. For instance, India's import of brakes and servo brakes and other vehicle equipment climbed sharply between 2010-11 and 2020-21. Many of such items are used as parts and components of global or regional value chain items. Given such a trend, the review of the AIFTA must closely inspect the exclusion list bearing in mind the rise in demand of several items of the

exclusion list. ASEAN countries such as Brunei Darussalam and Cambodia and others have also witnessed an increase in import of exclusion list items from India. Thus, it becomes imperative for both India and ASEAN to re-visit the items marked under the exclusion list (EL) and give it a thorough review on the basis of soaring demand and the use of EL items as inputs in the production.

**Figure 2: GVC Links between ASEAN and India**



Source: Authors' computation, based on ADB MRIO WWZ Decomposition, 2011, 2017 and 2020

The GVC is another important aspect of ASEAN-India FTA. Today, the ASEAN-India GVC linkage has not reached its full potential as can be seen from Figure 2. For example, the GVC related trade is quite low in comparison to domestically induced trade, visible in 2011, 2017 and 2020. However, foreign value added (FVA) has increased marginally between 2017 and 2020. India-ASEAN value chains are growing in sectors such as computers, electrical and optical equipment, machinery, transport equipment and motor vehicles, chemicals and chemical related sector and basic and fabricated metal sector. However, this trend is not in similitude with intra-ASEAN GVCs. The FTA between ASEAN and India should deepen the GVC linkages.

**Table 3: Exclusion List (EL) of AMS and India**

| Country                  | No. of Tariff Lines in EL | Total Tariff Lines | EL Items as a Share of Total (%) |
|--------------------------|---------------------------|--------------------|----------------------------------|
| <b>Brunei Darussalam</b> | 1377                      | 15460              | 8.9                              |
| <b>Cambodia</b>          | 166                       | 12164              | 1.36                             |
| <b>Indonesia</b>         | 633                       | 19400              | 3.26                             |
| <b>Lao PDR</b>           | 79                        | 3339               | 2.36                             |
| <b>Myanmar</b>           | 1813                      | 15344              | 11.81                            |
| <b>Malaysia</b>          | 1030                      | 12706              | 8.10                             |
| <b>Philippines</b>       | 1174                      | 14851              | 7.90                             |
| <b>Thailand</b>          | 1045                      | 12172              | 8.58                             |
| <b>Vietnam</b>           | 2051                      | 13737              | 14.93                            |
| <b>India</b>             | 1297                      | 12169              | 10.65                            |

Source: Calculated by authors' based on ASEAN-India FTA schedule of commitments

India has placed 11 per cent of the goods traded with ASEAN under exclusion list putting those goods out of the purview of any tariff reduction/elimination. About 1297 tariff lines are placed under the EL. ASEAN collectively has subjected around 9000 tariff lines to its exclusion criteria from any tariff reduction/elimination. The country-wise break-up is presented in Table 3.

Albeit, there are strong signs of increase in trade of the exclusion list goods as well. In light of the exclusion list adopted by the ASEAN countries, it is important to strike a balance between market access granted by India and ASEAN to each other. It goes without saying that the percentage of commodities traded covered under duty reduction by ASEAN does not match with those offered by India. Commodities traded covered under duty negative list only represent 80 per cent of currently traded items vis-à-vis 95 per cent covered by India's commitment. In light of these issues, the scope of the review exercise of ASEAN-India Trade in Goods Agreement must re-visit several areas, which is keys to the optimum utilization of FTA from the Indian side; and some of them are discussed briefly as follows:

#### **(i) Tariff reduction and elimination**

Products put under the sensitive and exclusion lists are subjected to an annual review. Both India and ASEAN need to follow a calibrated approach in tackling the tariff barriers. Several of the Indian industries are in a nascent stage and need to be protected from an influx of cheap and more sophisticated foreign products. For instance, domestic industries such as plantation crops, textiles, vegetable oils, fisheries and marine products, and spices have been identified as vulnerable to foreign competition. About 52 per cent of the exclusion list items by India in the AIFTA cover agricultural and marine products within the HS codes 01 to 24. This has been done considering the sensitivity of these products to foreign competition. Thus, the right approach towards tariff liberalization must take into account both the industry vulnerabilities to foreign competition without going into the protectionist terrain with which international trade has grappled with over the last few years.

#### **(ii) Non-Tariff Measures (NTMs)**

The NTMs issue requires scrutiny in order to balance the market access conditions in both the trade partners. Overtime, NTMs have increased in number and have given rise to asymmetries in trade. For instance, ASEAN countries have increasingly imposed NTMs on exports of agriculture products, textiles, base metals and electrical and machinery equipment (AIC, 2019). This has rendered 60 per cent of India's exports to ASEAN countries costly and less-competitive. For India and ASEAN to make the AIFTA more user-friendly and simpler and to actualize the higher trade, the rationalization and streamlining of NTMs is vital. Discussions around NTMs must seek seamless trade flow. NTMs become an impediment to trade when it gives rise to the following:

- (i) It contains overly strict regulations and complex requirements relating to non-tariff barriers; a subset of NTMs; and
- (ii) Creates bureaucratic procedures that takes too long to follow

Two of the most widely used NTMs are Sanitary and Phytosanitary measures and Technical Barriers to trade whose streamlining is important to realize the full potential of the ASEAN-India FTA.

**Sanitary and Phytosanitary Measures:** Sanitary and Phytosanitary (SPS) measures concern the application of food safety and animal and plant health regulations (WTO Secretariat, 1998). However, an increasing number of sanitary and phytosanitary measures have become an irritant in the smooth flow of trade between India and ASEAN. It has hampered the region in harnessing their full potential of value chains as well. Both ASEAN and India have witnessed an increase in the imposition of sanitary and phytosanitary measures on each other's exports. These measures impede market access for trading partners. For instance, Indian exporters of agricultural commodities to ASEAN face a number of sanitary and phytosanitary measures and similar is true for ASEAN commodities exported to India. Further, testing and certification requirements inhibit the growth of trade. As much as 50 per cent of the non-tariff measures imposed by ASEAN are SPS measures. The quality certification and testing requirements hurt mostly the medium, small and micro enterprises (MSMEs). The review of the AITIGA must look at the sanitary and phytosanitary measures from the Indian side so that low quality and hazardous goods may not slip into the country.

**Technical Barriers to Trade:** Technical Barriers to Trade (TBT) measures aim to ensure that technical regulations, standards, and conformity assessment procedures are non-discriminatory and do not create unnecessary obstacles to trade. Indian automobile manufacturers and exporters face technical barriers in exporting to ASEAN countries. Additional taxes on automobile products make it hard for Indian exporters to access and sustain in several ASEAN markets such as Singapore where technical regulations are strict. Needless to say, the technical barriers to trade inhibit the growth of value chains between countries as most of the value chains are prominent in industries such as automobiles. An increase/prevalence of technical barriers in the automotive sector could hurt the value chain potential of ASEAN-India which is already battered following the Covid-19 pandemic

### **(iii) Rules of Origin (ROO)**

The ROO has become a hotbed of all curtailment related to procurement and production. Indian exporters face strict rules of origin and compliance issues with ASEAN countries vis-à-vis ASEAN countries facing India. Of late, cases of rules of origin circumvention have also come into light wherein a third country was availing duty concession on exports due to negligence. For ASEAN exporters to claim preferential treatment under the AITIGA, the submission of certificate of origin is required with evidence of local production or addition of minimum 35 per cent plus CTSH, whereas under the ASEAN-China FTA, the requirement is 40 per cent. Loose ends in the rules of origin have given undue advantage to third countries/non-preferential countries to avail duty free trade flow. Thus, the review exercise must bring a SOP on rules of origin in order to check third party circumvention and trade deflection. It is also important for realizing the true potential of ASEAN-India value chains. A balanced rule of origin must be sought. The requirement of 35 per cent of local value addition in claiming preferential treatment has been tedious for both ASEAN and India as for most of the manufacturing goods, the imported content from third countries is huge thus making it problematic for both India's exports to ASEAN and ASEAN exports to India to seek preferential treatment. Therefore, it deems the review exercise imperative to correct these anomalies in the path of unabated two-way trade.

#### **(iv) Trade Facilitation**

In bringing symmetry in trade procedures and cutting down trade costs between ASEAN and India, trade facilitation measures need a close inspection and simplification. The harmonization of customs procedures must be reflected as an imperative point in the AITIGA review exercise. AMS and India need to re-work for simplification and harmonization of customs procedures, technical regulations, standards and SPS measures, in administrative fees and charges, transparency of laws, regulations and administrative rulings, risk management system and digitalization in trade procedures. ASEAN and India must pan out detailed provisions with respect to paperless trade. For instance, the AANZFTA linked among ASEAN, Australia and New Zealand goes specifically into ICT and e-commerce usage. However, similar intent is not displayed in the ASEAN-India FTA. Measures related to the electronic exchange of Sanitary and Phytosanitary certificates, electronic/ automated systems, electronic submission of customs declaration, internet availability to customs and other trade bodies at border crossings also need to be streamlined for paperless trade between ASEAN and India. Noted in De (2021), ASEAN Customs Transit System (ACTS) offers strong catalytic power not only to facilitate trade between ASEAN and India but also improve the competitiveness. To a great extent, ACTS may help India to reach to the every ASEAN neighbours overland with a single vehicle, a single transit, a single bank guarantee and a single Customs declaration. At the same time, this transit is not achievable through TH MVA or the WTO Trade Facilitation Agreement (TFA).

#### **(v) Trade Remedies**

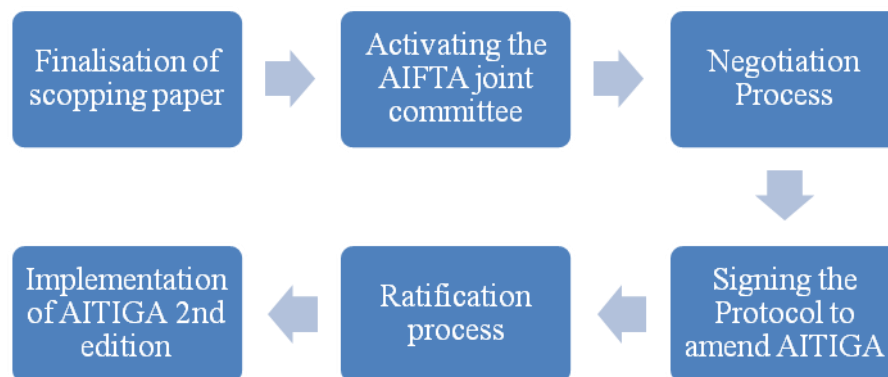
The local and domestic industries face the threat of competition from cheap goods entering the country under preferential access. Both India and ASEAN are involved in thwarting the increase in imports of items from industries such as steel, aluminum, gems and jewellery etc. in order to protect the domestic industries. Both parties apply anti-dumping and countervailing duties on each other's items of import based on the investigation by the respective trade bodies. For instance, India has received applications of enquiry in connection with ASEAN imports of plain medium density fibre board originating in or exported from Vietnam, Malaysia, Thailand and Indonesia and flat rolled products of stainless steel, copper and copper alloy flat rolled products, domestic solar module, tyres, etc. Similarly, several ASEAN countries like Indonesia have lately slapped an exorbitant anti-dumping duty of 52.7 per cent on sorbitol sugar exports from India. These measures on the one hand support the domestic industries but on the other hand curtail bilateral trade. The review of the AITIGA must bring symmetries in seeking trade remedies by ASEAN countries as well as India.

#### **(vi) Economic and Technical Cooperation**

ASEAN and India have recently concluded the 18<sup>th</sup> Annual Summit and underscored the need for energized economic and technical cooperation in the region. Capacity building exercises have been an important spoke in ASEAN-India partnership. The offer of 1000 PhD scholarships by various IITs in India has given a huge impetus to increasing proximity between ASEAN and India. Similar initiative in the education sector would fructify the partnership to a heightened level. Cooperation in the areas of physical and digital infrastructure is required to elevate the partnership. The Covid-19 pandemic has expedited the industrial revolution 4.0 and has increased the need for artificial intelligence, internet of things, etc. In the area of physical connectivity, the completion and extension of the Trilateral Highway to Lao PDR, Cambodia and Vietnam is critical for India's trade with ASEAN to become meaningful. There is a need to also

conclude the negotiation of the ASEAN-India Air Transport Agreement and ASEAN-India Maritime Transport Agreement.

**Figure 3: Next Steps**



Note: Based on Kurniasari (2021)

### 3. Conclusion

The AIFTA has governed merchandise trade between ASEAN and India for over a decade now. Time is ripe that ASEAN and India take steps to resume, negotiate and complete the review process. Figure 3 highlights major steps towards the second edition of AITIGA.

The changing landscape of the global economy and promulgation of global value chains provide the opportunity to seek a review of the FTA. There is an increased need to iron out the differences in tariff and non-tariff measures, root out the anomalies and re-work the rules of origin requirements, exclusion and sensitive list items, among others. The pandemic has re-invigorated the vitality of digital technologies and thus emphasis should be given to expediting paperless trade, electronic certificates of origin, etc.

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## About AIC

Considering the work of the ASEAN-India Eminent Persons Group (AIEPG), and its Report with recommendations for forging a closer partnership for peace, progress and shared prosperity, the Heads of the State/Government of ASEAN and India at the ASEAN-India Commemorative Summit 2012, held at New Delhi on 19-20 December 2012, recommended the establishment of ASEAN-India Centre (AIC), which was formally inaugurated by the Hon'ble External Affairs Minister of the Government of India on 21 June 2013 at RIS. AIC serves as a resource centre for ASEAN Member States and India to fill the knowledge gaps that currently limit the opportunities for cooperation. AIC is closely working with the Indo-Pacific Division of the Ministry of External Affairs (MEA), Government of India to undertake and disseminate evidence-based policy research and provide policy recommendations.

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