# ASEAN-India Free Trade Agreement review

## Why in News?

India has secured a review of its bilateral free trade pact with ASEAN recently, a pact that came into force from January 2010.

## What do the facts say?

- **Economic Survey 2015-16** - The average effect of a free trade agreement (FTA) is to increase overall trade by 50% in four years.
- However, some of the beneficial effects of this rise in economic activity are negated if the trade imbalance too increases sharply.
- **NITI Aayog's report** - India's trade deficit with ASEAN doubled from $5 billion in 2011 to $10 billion in 2017, whereas its overall trade rose over the same period from $50 billion to $70 billion.
- In the case of ASEAN, India eliminated tariffs on 75% of 12,000 tariff lines, excluding 1,300 tariff lines and keeping 1,800 in sensitive track.
- The NITI Aayog paper concludes that as a result of this move, trade balance has
  1. Worsened in 13 out of 21 sectors including chemicals, plastics, minerals, leather, textiles, gems and jewellery,
  2. Improved in sectors like animal products, wood, paper, cement, vegetable fat and arms and ammunitions.
- The report attributes this trade imbalance to procedural issues in ASEAN countries, lax implementation of rules of origin and India's exports being more responsive to income than price (or tariff) changes.

## What should India keep in mind for the ASEAN review?

- India must be clear about what it needs to give and take.
- India has a large market to offer, and it must drive a better bargain that it has done so far in forums such as RCEP (ASEAN plus six includes China).
- It should push for services access, plug loopholes in rules of origin, and not give in to unreasonable demands to pare sensitive sectors.

### What India should keep in mind for the RCEP talks?

- As for RCEP talks, there has been growing unease over ever-rising imports from China.
- Out of a bilateral trade volume of about $95 billion, India's trade deficit with China is $58 billion and growing.
- Faced with downturn issues as a result of US tariffs, China is keener than ever to step up its exports into India, even as sections of Indian industry have expressed dismay over the prospect.
- The **Centre needs to take stakeholders into confidence** rather than shy away from RCEP talks one day, and later issue statements to the effect that the Chinese impact is being exaggerated.
- It is still possible to enter the RCEP grouping without compromising its domestic interests.
- It could try to convert a relationship of trade into one of investment by integrating into global value chains.
- Steps to draw FDI in employment-generating areas must be given priority. An exclusive focus on trade in these protectionist times might not yield much.

**Source: Business Line**