Discussion Paper

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Development through Connectivity

How to Strengthen India-ASEAN Trade and Commerce

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Executive Summary

This paper is about why India need to have a better trade relation with Association of Southeast Asian Nations (ASEAN). Between 2008 and 2013, India's trade with ASEAN region has increased faster than two of its two largest trading partners, namely, European Union (EU) and the US. We find evidence of cross-border investment and trading activities between ASEAN and Indian firms. There exists complementarity in trading relation. We document these complementarities.

In fact, India can gain substantially by participating in the Southeast Asian production network. We explain how. First, as cost of production is lower in Laos, Cambodia, and Myanmar, it means that Indian firms could gain significantly by investing in these countries. Second, investing in these regions meant a bigger market for Indian firms. Third, Indian firms could evade protectionist measures targeted against their exports if they started exporting from Southeast Asian countries. Fourth, investing in these regions will also ease out some of India's energy requirements, enabling the Indians to access cheaper foreign energy (oil and power) and minerals from Cambodia, Myanmar and Viet Nam. Fifth, and more importantly, participating in the Southeast Asian production network will enable India increase its manufacturing base besides creating jobs for its young population. However, things could have been better.

There are considerable elements of red tapes and lack of connectivity (read, hard and soft infrastructure) which is undermining India-ASEAN trade relation. Indian policymakers need to invest in both hardware and software-type connectivity/infrastructure. For the business to flourish, adequate support in terms of having easier procedures for doing business is necessary. A two prong approach will help. First, reduce red tapes and invest in infrastructure. Second is to facilitate growth of services trade – a sector where India has comparative advantage over Southeast Asian nations.

Within services, India has strong comparative advantage in export of computer and information services, other business services such as financial, medical tourism, insurance, etc., and movement of natural persons, such as IT professionals and sea farers. A deeper economic integration calls for ideas to move beyond trade in goods and include services, environment, intellectual property and labours. To incorporate the aforementioned trade plus clauses, and thereby achieving a more holistic deeper economic integration there is a need for building institutions which will facilitate government-to-government interaction. The rules and agreement for integration should be binding and follow a time line for implementation across members. Rather than following a top-down approach (that is, government dictating the norms), the institutional design should follow a bottom-up approach taking suggestions from all relevant stakeholders – traders, business bodies, and non-government organisations (NGOs). Only then benefit of trade with ASEAN can be realised fully.

Introduction

Prime Minister of India, Narendra Modi, started his *Make in India* campaign amidst much fanfare. However, several challenges have to be first overcome. The perception is that while the Central Government is trying to make India a better place to do business, there are many concurrent issues that need to be solved at a sub-Central level. Doing business in India still requires knowing rules pertaining to Central Government, state governments, the Municipality, and all rules therein. Several domestic constraints affect India's trade competitiveness, and make it difficult to participate in the global production network.

In this aspect, India could take a lesson from its Southeast Asian counterparts. Most of these countries are successfully able to implement *Made in ASEAN*. This became possible by participating in the Southeast Asian production network. When a computer or cell phone is assembled, the constituent parts come from all across the Southeast Asian region. Notwithstanding the fact that ASEAN community is diverse, and private business in many ASEAN countries compete fiercely with each other and even lobby against others, there are complementarities in the trading relation which the Southeast Asian countries are able to make good use of.

To make the *Make in India* campaign successful, it would be important that the Indian producers are able to participate in the ASEAN production network. ASEAN has become important for India, especially at a time when two of India's largest trading partners, namely, the EU and the US, are yet to show sign of economic expansion.[1] There exists a huge trade potential for India-ASEAN trade to grow. During 2014, India-ASEAN trade as a per cent of India's total trade with world hovered around 10 per cent. This figure is around 13 per cent for EU, 8 per cent for the US, and 2 per cent for Japan.[2]

India signed a free trade agreement (FTA) with the ASEAN region[3] on August 2009, which came into effect on January 2010 with Malaysia, Thailand, and Singapore. The India-ASEAN agreement on Trade in Services and Investment which was signed in September 2014 is expected to come into force in July 2015. Once ASEAN Economic Community (AEC) becomes operational by 2015 (see Table 1), India is expected to come under FTA umbrella with the remaining ASEAN countries.[4] A Regional Comprehensive Economic Partnership (RCEP) is also expected to be concluded later in 2015. RCEP is a proposed comprehensive free trade pact among 10 ASEAN countries – Brunei, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Malaysia, Singapore, Thailand, and Vietnam, and six partners with which they have FTAs, including Australia, China, India, Japan, South Korea and New Zealand.

[1] In 2012, EU registered negative growth of 0.2 per cent and the unemployment rate rose to 9.7 per cent. During fourth quarter of 2012, the US economy registered a growth of a mere 0.4 per cent (Matthews, 2013)
[2] International Trade Centre (2015). Available at: www.intracen.org. Accessed on April 10, 2015
[3] ASEAN is a geo-political and economic organisation of 10 countries located in Southeast Asia
[4] The ASEAN political leadership adopted the ASEAN Economic blueprint at the 13th ASEAN Summit on November 20, 2007 in Singapore to serve as a coherent master plan guiding the establishment of the ASEAN Economic Community 2015.

Table 1: Charting the Progress of ASEAN Integration

	Goal	Status
Trade	Regional Free Trade Zone	Established
Taxation	End Double Taxation across Countries	Awaiting Legislation
Electrical Power	Regional Power Grid	In Development
Customs	Single Custom Window	In Development
Labour	Free flow of Labour across Nations	Awaiting Legislation
Financial Market	Linked ASEAN Financial Exchanges	In Development
Agriculture/Forestry	Uniform Product Standard	In Development
Intellectual Property	More Regional Intellectual Property coordination	Awaiting Legislation

Source: ASEAN Secretariat (2014)

ASEAN has a large market size. In 2013, ASEAN region was reported as the world 7th largest economy, 4th largest exporter (after US, EU and China), 600 million plus consumer base, 3rd largest labour force, and home to 8.8 per cent of the world population. In 2013, growth momentum in the ASEAN region slowed a bit, impacted by higher inflation and rising interest rates in Indonesia and political uncertainty in Thailand. However, Malaysia and the Philippines have shown robust growth, with the trend likely to continue for the remaining 2015 (International Monetary Fund, 2014).

India also surprised the world, with a robust gross domestic product (GDP) growth numbers (growing at 8.2 and 7.5 per cent respectively during last two quarters of 2014), matching that of China.[5] The advance estimate by World Bank suggests that India is likely to grow at 7.5 per cent in 2015.[6] India-ASEAN bilateral trade grew 4.6 per cent from US$68.4bn in 2011 to US$71.6bn in 2012. In 2012, ASEAN's exports were valued at US$43.84bn and imports from India amounted to US$27.72bn. In 2014, India's exports to ASEAN stood at US$31.29bn whereas imports were at US$44.45bn, taking the total trade figure to US$75.74bn.[7] The ASEAN-India FTA will see tariff liberalisation of over 90 per cent of products traded, with tariffs on over 4,000 product lines will be eliminated by 2016, at the earliest. The target has been set at US$100bn by 2015 for ASEAN-India trade and around US$150bn by 2020.[8]

However, like any other economic partnership, because of FTA implementation, there will be some gainers and some losers – some sectors in which India has competitive advantage will gain whereas the sectors where the ASEAN has competitive advantages, India is likely to lose. Then there are issues related to non-tariff barriers (NTBs).Tariffs liberalisation will not be effective with the presence of NTBs. Studies, as discussed in the literature review section,

[5] The Wall Street Journal (2015)
[6] Source - http://www.hindustantimes.com/business-news/india-leads-emerging-economies-in-growth-chart-world-bank/article1-1357343.aspx
[7] International Trade Statistics (2015)
[8] The Hindu Business Line (2014)

have pointed out about potential winners and losers from India-ASEAN FTA, and prevalence of NTBs in the ASEAN region. What has, however, not been examined are areas of complementarity in India-ASEAN trading relation and factors preventing Indian businessman to make good use of this complementarity, thereby enabling them to participate in Southeast Asian production network.

This paper points out these complementarities, and domestic constraints making India a difficult place to do business. It was also found that there exists a huge trade potential for India's services sector. Much of the gains from these FTAs will be limited unless India addresses its domestic constraints, and negotiate to open up trade in services. Externally, there is the *China factor*. Over last 15 years, China has become the first or second largest trading partner with almost all Southeast Asian countries. Politically, China is close to Malaysia, Cambodia, Laos, and Myanmar, and much of investments in these four countries are reflection of that. Where China succeeded and India failed is about building connectivity and institutional linkages with its ASEAN counterpart.

Volume wise, trade between China and Southeast Asia is five times more than recorded between India and Southrast Asia.[9] This paper, therefore, builds on these issues – commenting on the areas of complementarity, how India can gain by reducing domestic constraints, negotiate hard for trade in services and politically containing/learning from the *China factor*. The paper presents a brief literature review and discusses complementarity in the trading relation within ASEAN, and how India can participate in intra-ASEAN trade. It deals with the areas of services trade where additional gains can be accrued and discusses the political economy and the China factor.

Literature Review

India-ASEAN FTA in its present form focusses mostly on merchandise items; studies in the literature have thus mostly focussed on these. Sikdar and Nag (2011) noted that out of 4000 products, for 3200 items tariffs will be reduced to zero by 2013, while tariffs on remaining 800 items will be reduced to zero and close to zero by 2016.[10] A study by Deloitte-FICCI (2011) finds India has comparative advantage in chemicals, medical and pharmaceutical, textiles, apparels and accessories, carpets and handicrafts items. The ASEAN counterpart has comparative advantage in machinery and appliances, and electrical equipment. Again for India, Chandran and Sudarshan (2012) find fishing industry, whereas, Pal and Dasgupta (2009) find automobile industry as the likely beneficiaries.

The sectors which are likely to suffer are tea and plantation (Veeramani and Gordhan, 2011). Bhattacharyya and Mandal (2014) made an interesting observation – tariffs do not matter at all for a major part of the industry and intermediate good will be more affected. Pal and Dasgupta (2008), and Francis (2011) pointed out that production networking among Indian and ASEAN firms is expected to rise after the FTA. India is likely to gain from participating in the production supply chain network.

[9] Brunei Times (2013)

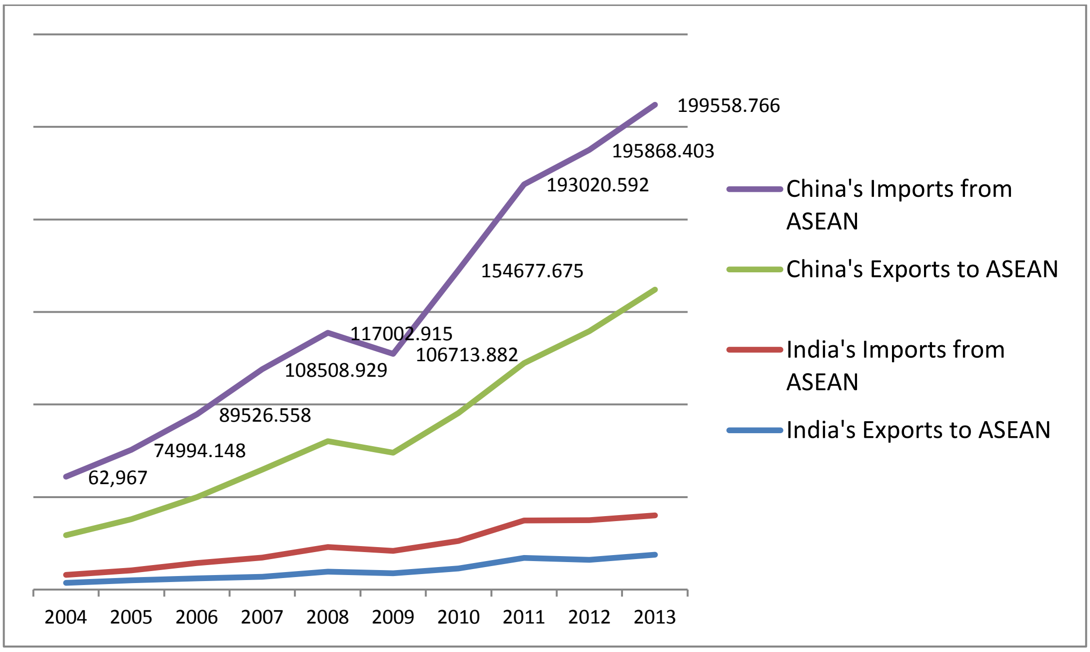
[10] In addition to these 4000 items, 489 items were excluded from the list of tariff concessions, and 590 items were removed from the list of tariff eliminations. These items mostly fall in the categories of farm products, auto parts, and textile products

The larger part of the gain will be accrued from liberalising services sector and removing NTBs. A study published by the Asian Development Bank (ADB) and the Institute of Southeast Asian Studies (ISEAS) in 2013 concludes that NTBs have replaced tariffs as protective measures, and little progress was made for removing them. NTBs are undermining the process of economic integration, and ASEAN is far from being a single production base. A reason for persistence of these NTBs arises from weaker institutions. While ASEAN governments have been forthcoming in initiating ambitious plans and programmes, they fail to meet set targets and do not adhere to commitments, action plans and timelines to which they themselves earlier agreed. Domestic opposition to regional economic integration comes not only from firms and industries seeking continued state protection from regional competition but also from groups, including those from civil society and the labour sector, that are sceptical of globalisation and regional integration.

Complementarity in Trading Relation

At a macro-level, India-ASEAN trade is yet to pick momentum. The comparison becomes stark especially considering China's trade with the ASEAN region (see Figure 1). Also, as Europe and North American economies are slowing, it was found that ASEAN is increasingly becoming important for India. Between 2008 and 2013, India's exports to ASEAN increased at a Compound Annual Growth Rate (CAGR) of about 15 per cent, higher than that India witnessed with its two major trading partners, namely, EU and North American Economies (see Table 2).

Figure 1: China-India-ASEAN Trade Figures (in US$mn)



Source: ITC Trade Map, Geneva

Table 2: Growth Rate of Indian Exports (region-wise)

	Share in total exports	CAGR p.a. over past decade	CAGR p.a. over past five years
Latin America	4%	29%	22%
GCC	17%	26%	19%
Africa	10%	25%	15%
ASEAN	11%	22%	15%
North America	13%	13%	12%
South Asia	5%	18%	9%
Northeast Asia	13%	17%	8%
EU	17%	16%	8%

Source: Directorate General of Foreign Trade, Government of India (2014)

A *natural* way to increase the trade between India and Southeast Asia is to participate in that region's production network. Participating in Southeast Asian production network is important for five reasons. First, as cost of production is lower in Laos, Cambodia, and Myanmar, it means that Indian firms could gain significantly by investing in these countries. Second, investing in these regions means a bigger market for Indian firms. Third, Indian firms could evade protectionist measures targeted against their exports if they started exporting from Southeast Asian countries. Fourth, investing in these regions will also ease some of India's energy requirements, enabling such Indian investors to access cheaper foreign energy (oil and power) and minerals from Cambodia, Myanmar and Viet Nam. Fifth, and more importantly, participating in the Southeast Asian production network will enable India to increase its manufacturing base besides creating jobs for its young population. India has 560 million young people under the age of 25, and without adequate manufacturing capability and inability to participate in global production network India's demographic dividend may turn out to be a bane.

India should take a lesson from its ASEAN neighbours as how to make best use of complementarity in trading relation. In the ASEAN region, complementarities exist in terms of trade in energy, consumer durables and food items (Banik, 2011). Thailand is a major buyer of energy and food items from the ASEAN region. Laos has been supplying hydroelectric power to Malaysia and Thailand. Viet Nam has been supplying petroleum and petrol products to Thailand, Laos, and Cambodia. The richer economies within the ASEAN region, such as Singapore, Indonesia, and Brunei Darussalam (see Table 3), have demand for food, meat and clothing – things which are supplied particularly by Myanmar, Laos, Cambodia and Viet Nam.

As labour is relatively cheaper in Cambodia, Laos and Myanmar and yet movement of unskilled labour is restricted, there is a potential for richer economies to invest in garment, machinery spare parts and footwear industries of formers' (*Ibid*.). In fact, Cambodia and Laos are giving tax-holiday to attract foreign direct investment (FDI) in labour-intensive industries, such as garment and footwear. As and when labour market becomes fully integrated, ASEAN firms will gain from a more competitive labour force. At present ASEAN members have agreed to pilot a free labour market plan by allowing specialists and professionals in seven fields, namely, medicine, dentistry, nursing, engineering, architecture, natural resources and geographical exploration and accounting, to work anywhere they like across the region in 2015.[11] Free flow of professionals makes it easier for companies to find the staff they need, making them more competitive.

[11]Bangkok Post (2010)

Table 3: Broad Macroeconomic Indicators

ASEAN	GDP (US$bn)	Per-capita GDP per annum	FDI Inflow (US$mn)	Population (in million)
Brunei Darussalam	15.5	36584	629	0.42
Cambodia	12.9	852	783	15.4
Indonesia	845.7	3509	13304	250
Laos	7.9	1204	333	6.7
Malaysia	278.7	9700	9156	29.7
Myanmar	51.9	832	450	53.2
Philippines	213.1	2223	1713	98.3
Singapore	259.8	49271	35520	5.3
Thailand	345.6	5394	6320	68.3
Viet Nam	122.7	1374	8000	91.8

Source: International Monetary Fund (IMF) Economic Outlook Database, 2012 and World Bank, 2013

India can take advantage of this dynamism in the ASEAN market by participating in the region's production network. China has made use of this production network well. Most of the trade between China-Thailand and China-Viet Nam relate to capital goods, such as office machines, electric machines, road vehicles, etc. Thailand, Viet Nam, and Cambodia have become manufacturing hubs for white goods (namely, consumer durables, like, mobile phones, air conditioner, refrigerators, computers, etc.) and other electronic items. Most of the office equipment and electrical machineries that Thailand exports and most of the fertilisers and motor cycles that Viet Nam sell are made with Chinese machinery inputs, and with the help of Chinese investment (Banik, 2011). Intermediate inputs used for manufacturing office equipment, automatic data processing machines, general industrial machines and power generating equipment form bulk of China's exports to this region.

Energy resources of the region, particularly hydroelectricity can be of use, to the booming and fuel hungry economy of India. India can invest in hydroelectric power project in Cambodia. In future, Cambodia with a potential of an estimated 8000 megawatt of hydropower can also be a major supplier for energy for India. India's nuclear power plant is yet to become fully operational, and there is a need for an alternative source for energy. In 2014 India's per-capita electricity consumption was 1010 kilowatt per hour which is around one-fourth of global average. There is an average energy shortfall of around 10 per cent and a peak short fall of around 5 per cent (see Table 4). Most of electric power generation in India is coal-based. Indonesia possesses the largest and most easily accessible coal reserve in the ASEAN region which can be used for electric power generation in India.

Table 4: India's Power Shortage

Region	Energy			Peak Power		
	Requirement	Availability	Surplus/ Deficit	Requirement	Availability	Surplus/ Deficit
Northern	328944	318837	-3.1 %	47570	46899	-1.4 %
Western	288062	289029	+0.3 %	45980	52652	+14.5%
Southern	298180	260366	-12.7%	41677	32423	-22.2%
Eastern	118663	114677	-3.4%	17608	17782	+1.0%
All India	1048672	995157	-5.1%	147815	144788	-2.0%

Source: Ministry of Power, Government of India (2014)

The erstwhile pariah state, Myanmar has opened up, and provides a huge investment opportunity for Indian firms, especially in oil and natural gas exploration sector. At a government-level, there is a precedence of joint work. In 2002, Government of India launched a Remote Sensing and Data Processing Programme, to help Myanmar with weather forecasting, determination of forest cover and other land use. Indian firms, such as Larsen and Toubro, Adani Port, and National Thermal Power Corporation Limited can invest in Myanmar with money and technical expertise to build infrastructure, such as building container dock and coastal ships, power stations and cement factories.

Indian telecommunication companies, such as Bharti Airtel and Reliance Telecommunication have the expertise for laying down optical fibre cables and telecommunication network, something in need for countries, such as Myanmar, Cambodia and Laos. There are around 17000 islands in Indonesia. Indonesia is building six economic corridors to become locally - integrated and internationally-connected. Each one of these corridors – Sumatra corridor (known for energy reserves), Kalimantan corridor (known for mining activities), Sulawesi corridor (known for oil and gas exploration), Java corridor, Bali Nusa Tenggara corridor and Papua Maluku island corridor – offer huge investment opportunity for Indian oil exploration and construction firms, such as Oil and Natural Gas Corporation Limited, Reliance, Bharat Heavy Electrical Limited and Larsen Toubro.

Indian companies already have many joint ventures with their Indonesian and Singaporean counterparts. For example, Bajaj Auto has a joint venture for the assembly and production of three and two wheelers. Other Indian companies with significant investment in Indonesia include Aditya Birla Group (Indo-Bharat Rayon), S P Lohia Group (Indo-Rama Synthetics), Ispat Group (Ispat-Indo), and Essar Group (ESSAR Dhananjaya). In case of Singapore, India's largest trading partner in the ASEAN region, joint ventures are mainly in the fields of shipping, aviation, automobile and computer accessories and chemicals. For instance, Port of Singapore Authority has started investing and developing sea ports in Southern States of India (Tamil Nadu and Kerala). Tata group from India and Singapore Airlines have jointly launched airline named, "Vistara". Sing Tel has invested in India's Bharti Telecommunication, and Voltas and Dow Chemical Pacific Limited has set up joint venture for water waste treatment plant. The potential is certainly there for India to become a natural trading partner in the ASEAN region.

Advantage India – The Case of Services

Inability to embed into Southeast Asian supply chain network means limited gain for India, especially when it comes to trade in goods. A large part of trade among ASEAN community is intra-industry type trade, surviving on production network. To participate in production network, it is necessary to have a well-functioning infrastructure and lower logistic costs. There is a need for investing in both hardware and software type connectivity/infrastructure.[12] The government lack necessary funds for investing in hard infrastructure, such as building roads and ports. However, it can provide support to business communities by having easier procedures for doing business. A two prong approach will help. First, reduce red tapes and invest in infrastructure and second, to facilitate growth of services trade.

Red Tapes and Infrastructure

Although reforms in India are taking place, they are far from complete. Companies face a maze of government orders, regulations, rules and procedures, which raise the cost of doing business in India. In its Doing Business Report-2014, the World Bank placed India in the 134th position out of a sample of 189 countries, which is worse than China (96th), Sri Lanka (85th), Bangladesh (130th), or Pakistan (110th) when it comes to the convenience of doing business. Enforcing a contract in India takes an average of 1,420 days and involves 46 different procedures. Importing goods takes an average of 20 days and 11 documents. Tax payments have to be made on average 33 times per year and the process takes 243 hours.[13]

Even in terms of productivity and efficiency, India needs to improve. According to the APO Productivity Database 2014, average Total Factor Productivity (TFP) growth in India rose from 2.0 per cent in 2000-05 to 4.7 per cent during 2005-10, but fell to 0.9 per cent in the following two years. However, for China average TFP growth was 3.9 per cent during 2000-05, rising to 4.2 per cent during 2005-10, and falling to 2.1 per cent over the next two years. During 2010-12, while TFP contributed 11 per cent to GDP growth in India, its share in China's GDP growth was 26 per cent. Average TFP growth over the last four decades in India has been 1.4 per cent as compared to 3.1 per cent in China.

Logistics costs are high in India. As a matter of fact, at 13 per cent of GDP it is among one of the highest in the world. With respect to 'Trading Across Borders', in 2013, India ranked 132 out of 189 countries, while Bangladesh, Nepal, Pakistan and Sri Lanka ranked 130, 177, 91, and 51, respectively. For instance, trucks in India have to pass through multiple checkpoints and stop at state borders for inspections and pay toll taxes and octroi. During a journey of 2,150 kilometres between Kolkata and Mumbai, for example, a truck had to stop at 26 checkpoints for as much as 32 hours (Deloitte–ICC, 2012). By some estimates, inadequate infrastructure is responsible for holding back GDP growth by roughly 2 per cent, or an annual hit of approximately US$20bn to economic progress. The government, on its part, has set a huge target of doubling investment in infrastructure from Rs20.5tn (US$0.33tn) to Rs40.9tn (US$ 0.65tn) during the 12th Five Year Plan period (2012-2017). Significant investments from the private sector will also be needed. Within infrastructure funding, contribution of private sector is only 36 per cent in comparison to China's 48 per cent. This is notwithstanding the fact

[12] Hardware elements of connectivity involves investment in physical infrastructure such as building roads, ports, telecommunication, electric grid, etc. whereas the software elements of connectivity constitutes custom codes, transit regulations, training and capacity building of custom professionals

[13] Doing Business Report (2014), World Bank

that China's GDP is almost four times the size of India's GDP – US$8.3tn for China and US$2tn for India in 2012.[14]

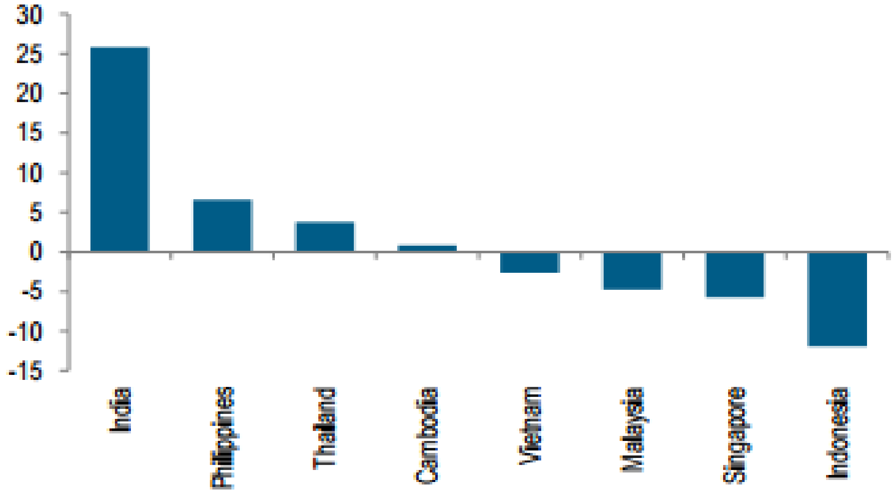
According to Calderon et al. (2011) if all countries increase their spending on infrastructure by 1 per cent of GDP, it will increase global GDP by 2 per cent, and GDP in developing country will increase by almost 7 per cent. For India, a McKinsey study concludes, an additional 1 per cent of GDP spent on infrastructure would create 3.4 million jobs in India, and 700,000 in Indonesia.[15]

Investing in physical infrastructure such as roads, electric girds, telecommunication, and ports will help India better integrate with its ASEAN neighbours. Likewise, building better connectivity and trade will also require that Indian policymakers make a conscious effort in improving the software part of infrastructural requirements such as harmonising custom codes and standards, training and capacity buildings for passage of goods, technology, and individuals between India and Southeast Asia.

Trade in Services

Besides working towards making India an easier place to do business, an effort should be made to increase trade flow in services. India has comparative advantage in services relative to manufacturing and agriculture. Services contribute to around 50 per cent of India's GDP. Considering the external sector, India always recorded trade surplus in services. In 2013, relative to most other Southeast Asian neighbours, India enjoyed a healthy surplus in services trade (see Figure 2). Within services, India has strong comparative advantage in export of computer and information services, other business services such as financial, medical tourism, insurance, etc., and movement of natural persons such as IT professionals and sea farers, something we should explore more for market access (see Table 5).

Figure 2: Trade Balance in Services (US$bn)



Source: World Trade Organization (2014)

[14] OECD Country Reports (2013). Available at: http://www.oecd-ilibrary.org/economics/country-statistical-profile-china_csp-chn-table-en. Accessed, April 03, 2013

[15] McKinsey Global Institute and McKinsey Infrastructure Practice (2013)

Table 5: Revealed Comparative Advantage for India's Services

Service Sector	India				
	2001	2006	2010	2011	2012
Transportation	0.53	0.50	0.52	0.63	0.61
Travel	0.60	0.47	0.47	0.52	0.50
Communications	2.79	1.27	0.51	0.50	0.51
Computer and Information	9.72	6.88	5.81	5.52	5.38
Construction	0.18	0.38	0.17	0.25	0.24
Financial	0.29	0.44	0.65	0.63	0.58
Government services	1.46	0.18	0.23	0.25	0.20
Insurance	0.85	0.76	0.58	0.84	0.78
Other business services	0.61	1.51	1.10	1.11	1.25
Personal, cultural and recreational	0.00	0.53	0.33	0.30	0.47
Royalties and Licence fees	0.04	0.01	0.02	0.03	0.03

Source: Calculated from UNCTAD Statistics on International Trade in Services (2014). Available at: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx.

Unfortunately, most of the multilateral negotiations stress on the need for liberalising trade in goods without putting emphasis on services. When nations go through a growth slump they turn protectionist because of domestic political pressures. The collective response of the political class becomes less rational. Rather than liberalising trade, policymakers end up doing just the opposite. The short-term imperative of protecting existing employment/income outweigh the medium to long-term objective of growing employment and income.

In this aspect, trade in services have advantages over goods. Instances of NTBs in case of services are far less than goods. Hence, the emphasis must be on services because the welfare gains in opening up services (Mode 1 to Mode 4 under the WTO framework) can produce many times more welfare gains than further liberalisation of merchandise trade. This is not to suggest that merchandise trade liberalisation should be ignored. As argued earlier, Indian policymakers should make an effort towards making India investor-friendly as well as negotiate hard for making inroad for services.

Ghemawat (2011) argues that as per the mathematical model used by WTO, standard estimate of gains by liberalising the remaining barriers in global merchandise trade is about 0.5 per cent of GDP which works out to US$300bn. However, the potential gains by eliminating all cross border labour mobility restrictions is 100 per cent of GDP. In reality, however, 100 per cent removal of restrictions on labour movement can never happen. However, Ghemawat (2011) poses this extreme case just to show that even moderate easing of cross border labour movement and doing liberalisation of services will yield massive gains. It would still be several times the gains made from fully opening up merchandise trade.

ASEAN and India must look at a new model for liberalising trade in services to produce substantially higher growth and employment in the region. From the policy side this is very much doable only needing a political will to make it effective. India has already signed comprehensive agreements covering services with countries such as Singapore and Malaysia.

ASEAN member countries can also gain from this. The Logistic Performance Index 2014 reveals a modest rank for India (39) among 153 countries, lagging behind Singapore (1), Malaysia (27), and Thailand (31).[16] India has been lagging behind especially because of low scores on parameters such as logistic costs (46), custom procedures (47), and timeliness (47). India offers a large and unsaturated market to global service providers in logistics, and here countries such as Singapore and Malaysia can be of help. Singapore, also scores high on Mode 3 type services such as banking and insurance. With the present National Democratic Alliance government raising the FDI cap on insurance to 49 per cent from the earlier 26 per cent there is a likelihood of this India-Singapore CEPA becoming effective. Capital from ASEAN region will have better usage when invested for building physical infrastructure in India.

As there is already low level of capital deployed, return on additional capital investment will always be higher in India than investing in China. Company like CESMA International from Singapore has already started investing in India to develop smart cities and township projects. At an official level, India sought investment from Singapore to develop Delhi-Mumbai and Chennai-Bangalore corridor, as well as in the north-eastern Indian region (Tikoo, 2014). Development of north-eastern region, especially building infrastructure connectivity in the State of Mizoram and Manipur, is essential if India wants to access industrial corridor around Dawei, Bangkok and Ho Chi Minh City.

Likewise, India offers significant potential for medical tourism. Cost of medical tourism in India is least in the Southeast Asian region (Lunt *et. al.*, 2011). The Indian healthcare delivery market is estimated at US$30bn in 2012, contributing to 5 per cent of GDP, and employing around four million people.[17] The hospital services market is expected to worth US$81.2bn by 2015, with the bulk of the contribution coming from the private sector. Most of the patients involve in the medical tourism market comes from Africa, the Commonwealth of Independent States (CIS) countries, the Gulf and the South Asian Association for Regional Cooperation (SAARC) region. There is a demand for organ transplants and orthopaedic, cardiac and oncology treatments.

Another rapidly growing segment is the healthcare information technology. The electronic medical record services segment is seen as having a high growth potential, with an estimated annual growth of 13.5 per cent between 2009 and 2016. There is a demand for contract research and knowledge process outsourcing (KPO), with foreign players entering into clinical trials segment to take advantage of lower input cost in India. The negotiations on health should focus on removing existing restrictions on the outsourcing of clinical data and patient information to India for services such as tele-radiology, tele-consulting, tele-imaging,

[16] Logistic Performance Index, World Bank (2014). Ranking are in the parenthesis. Available at: http://lpi.worldbank.org Accessed on August 04, 2014

[17] Confederation of Indian Industry (CII), 2014

and medical coding. If the services sector is liberalised, Indian and ASEAN community will jointly offer a large market of more than 1.8 billion consumers for their service providers.

However, it is important to recognise some bugs in the services sector. Services sector in India faces several restrictions including restrictions on foreign equity participation and regulatory conditions on FDI inflow. For example, in construction and related engineering services, where Singapore and Thailand can provide expertise, there is a minimum capital requirement (US$10mn for wholly-owned subsidiaries and US$5mn for joint ventures with Indian partners); and a minimum lock-in period of three years (from the completion of minimum capitalisation before original investment) for repatriation of the amount. Sectors such as education are jointly regulated by the Central and state governments, while health is a state subject.

Segments such as railways, national highways, major ports, international shipping, civil aviation and inland waterways are under the jurisdiction of the Central Government, whereas others, such as state and rural roads, minor ports, coastal shipping and trucking are under state governments. In addition, there are some areas of joint jurisdiction (rural roads) where the state governments work in co-ordination with local municipal bodies and the Central Government.[18] There is no single independent regulator for the entire logistics sector in India.

The multiplicity of regulators has led to the need to obtain multiple clearances. For example, there are around 13 regulatory bodies (including the All-India Council for Technical Education, the University Grants Commission and other universities) to regulate higher education. Likewise, the financial services sector is governed by around 60 acts and related rules and regulations.[19] These multiplicities of governing process should be removed with necessity of having a single window clearance.

India is not a lone case, as many ASEAN countries and others, have similar restrictions in terms of services. A primary reason for this has to do with failure to recognise one another's degree/certification, and product standards. What is essential is to have an institution for mutual recognition of standards in the India-ASEAN bilateral services agreements. For instance, in spite of India having a services trade agreement with Japan and South Korea, Indian nurses, architects, and even yoga professionals are yet to get market entry. These two countries have not signed any mutual recognition agreements with India honouring educational and professional qualifications. Protests from local pressure groups, such as nurses in Japan, have prevented even the commencement of negotiations, leave alone any agreement. Although the CEPA with South Korea had sought to allow access to Indian engineers, consultants and other professionals, there has been limited success with recognition of Indian engineering colleges remained an issue.

China, ASEAN, and the Politics of Integration

AEC was perceived at a time when not much was happening over at WTO, and financial crisis crippled growth prospect in the US and EU. AEC is seen as a way to integrate trade and commerce within the ASEAN region – sort of decoupling from the developed West and

[18] Apart from transport ministries and departments, several other ministries such as the Ministry of Finance, the Ministry of Environment & Forests and the Ministry of Consumer Affairs, as well as the Food and Public Distribution (which oversees inter-state movement of goods) regulate this sector
[19] Press Information Bureau, Government of India (2013)

North American economies. However, the fact remains, the US and EU still continue to influence ASEAN growth, with production network effect still going strong. High value-added designing are still done in the West and North American economies, and mass production continuing in Southeast Asian region and China.

India is still at an infant stage in term of participating in production network system. So far India concentrated on its large domestic market but realised the need to participate in the production network system. The value addition from participating in international production network is large in comparison to focussing on domestic manufacturing and agricultural activities. Particularly, after Prime Minister, Narendra Modi's *Make in India* pet project, policymakers in India have started looking at East.

Indian policymakers can learn from China as how to integrate better with the ASEAN region. Chinese policymakers realised that they needed to do things differently. One important step they undertook was to start investing heavily in Southeast Asia. This meant two things. First, as cost of production was lower in Southeast Asia, it meant Chinese firms could gain by shifting their production base outside China. Thailand, Laos, Cambodia, Viet Nam and Myanmar are all part of ASEAN, which means Chinese firms that are set up in any of these Southeast Asian countries will have easy access to the rest of ASEAN. Since October 2003, China and Thailand have taken the lead in implementing zero tariffs on agricultural products, covering 200 types of fruit and vegetables. China has also granted zero tariffs treatment to Cambodia (83 products), Laos (91 products) and Myanmar (87 products). This has eased movement of goods in the region.

Second, investing in Asia also eased out some of China's energy requirements, enabling the Chinese to access cheaper foreign energy (oil and power) and minerals. Since 1996, Chinese firms have constructed six hydropower plants and one thermal power station in Myanmar. China has also invested in power transmission and copper processing activities in Viet Nam. Additional planning has been already completed on initiatives such as Singapore-Kunming railway, the ASEAN Power Grid and the ASEAN Open Skies Agreement.

Investment undertaken by China in developing world-class roads and ports further reduced the cost of doing business in the Southeast Asian region. This also helped China to bolster their official trade statistics. Consider this. The formal two-way trade between Muse in Myanmar and Jingao in China is worth over US$2bn, whereas, the formal border trade between Rhi, Myanmar, Mizoram and India is around US$35mn. Estimate suggests that informal trade between Myanmar and India is about US$573mn.[20] China has 22 wheeled tractor trucks parked on its side of the border for transporting rice from Myanmar, in comparison to informal trade with India where women carry headload of goods across small rivers. Access to better infrastructure helps. In May 2012, India extended a US$500mn line of credit to Myanmar, part of which is to be used for a two-lane Manipar-Mandalay road. Unfortunately, at present much of the connectivity between India and Myanmar is strung because of inadequate physical infrastructure and restrictive institutional arrangements, especially restrictions on tradable items and mode of settlement.

Chinese strategy of weaving together a network of economic interdependence has panned out well. China made some followers such as Malaysia, Cambodia and Laos. In spite of having dispute in South China Sea over Spratly and Paracel Islands with Viet Nam, Philippines, and

[20] See: http://www.eximin.net/NewsDetails.aspx?name=26422

Indonesia, none of the ASEAN member spoke against China during the 24th ASEAN Summit held at Myanmar. Politically, India is aligning with the US and Japan to get access to the ASEAN market. When it comes to foreign diplomacy, unfortunately, India lacks capability to match that of China. India has around 500 class one officers in its foreign services (read, Indian Foreign Services), and China has almost 10 times more, around 5500 officers.

Foreign diplomacy is an essential component for building government-to-government tie-up. Again the example in hand is that of China-Malaysia trade. Malaysia has earned notoriety for using government procurement as one of the NTBs. Although the government procurement policies and procedures are clear in Malaysia, many contractors felt overburdened by red-tape and inefficient registration procedures. There is lack of transparency contributing to unfair tender processes. In spite of a harder government procurement rule, since 2008, China remained Malaysia's largest trading partner. This economic cooperation has expanded into financial sector. In 2013, central banks of these two countries have agreed to establish a yuan clearing bank in Kuala Lumpur, part of China's idea to internationalize Renminbi.

In fact, FTAs has small impact towards increasing trade and commerce in the region. A deeper economic integration calls for ideas to move beyond trade in goods and include services, environment, intellectual property and labours. A survey undertaken by The Economist Intelligence Unit reveals that a number of exporters using FTAs are really low.[21]

About half of exporters in the ASEAN (48 per cent) say they do not use some FTAs because of the complexity of agreement terms, while 29 per cent say the benefits do not compensate for difficulties in using them. Complex rules of origin criteria, lack of information on FTAs, higher compliance costs and administrative delays dissuade exporters from using preferential routes. The compliance cost of availing benefits under these FTAs is so high that exporters prefer using the normal route. India has actively pursued FTAs with several major trading partners in the past. Though it is early to draw any definite conclusion but India's FTAs with Japan and South Korea are yielding limited results.

To incorporate the aforementioned trade plus clauses, and thereby achieving a more holistic deeper economic integration there is a need for building institutions which will facilitate government-to-government interaction. The rules and agreement for integration should be binding and follow a time line for implementation across members. Rather than following a top-down approach (that is, government dictating the norms), the institutional design should follow a bottom-up approach taking suggestions from all relevant stakeholders – traders, business bodies and NGOs. As NTBs have become trade-restricting, a web-based facility in reporting and monitoring these should be set up. Consultation with business is essential for tapping relevant information. This would increase transparency and compliance with government regulations, administrative procedures and requirements.

Yet another recommendation is the harmonisation of product and service standards. In addition, technical assistance to strengthen human and institutional capacities for setting standards is required. Institutions should help individual governments to forge for a deeper economic integration.

[21] FTAs in Southeast Asia: Towards the Next Generation, The Economist Intelligence Unit (2014)

Conclusion

India has signed an FTA with the ASEAN. The ‘Look East’ policy for India matches very well with the ‘Look West’ policy that ASEAN have for India. At a policy level, India is drafting a five-year plan of action starting 2016 to take the trajectories of common interests with the 10-member ASEAN grouping to a new level, particularly emphasised on improving connectivity in the region to further boost trade and people-to-people contact. Relevance of ASEAN has increased, especially because two of India’s largest trading partners, namely, the EU and the US, are yet to show any sign of economic expansion.

However, in its present state, India-ASEAN FTA promises limited gain. FTAs are yielding limited results. There is a need to go beyond trade and include trade plus issues such as services, environment, intellectual property and labours. This will make easier for India to become part of East Asian production network. Participating in East Asian production network has become a necessary condition if India wants to target a higher growth trajectory. A strong government-to-government tie-up and institution to government liaison is necessary for a better economic integration with the ASEAN.

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