BRIEFING PAPER

CUTS International 1983 2012

No. 3/2014

India-ASEAN Free Trade
The Untapped Potential

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India has signed a free trade agreement (FTA) with the Association of Southeast Asian Nations (ASEAN). The 'Look East' policy for India matches very well with the 'Look West' policy that ASEAN have for India. However, in its present state, India-ASEAN FTA promises limited gain. Much of the reason for this limited gain has to do with domestic distortions. There is also a need to go beyond trade in goods, and cover areas in services. There is evidence of complementarities in trading relation.

A reason for ASEAN economic community progressing well has to do with the complementarities. Complementarities exist in terms of trade in energy, consumer durables and food items. For India to gain meaningfully there is a need to become part of East Asian production network and remove its domestic constraints. Participating in East Asian production network has become a necessary condition if India wants to target a higher growth trajectory. This Briefing Paper builds on two issues – how India can gain through liberalising services and by reducing domestic constraints.

Introduction

India signed a free trade agreement (FTA) with the ASEAN region[1] on August 2009, which came into effect on January 2010, with Malaysia, Thailand, and Singapore. In 2012, ASEAN region is 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 house to 8.8 per cent of the world population (International Monetary Fund, 2012).

Once ASEAN Economic Community becomes operational by 2015, India is expected to come under FTA umbrella with the remaining ASEAN countries.[2] 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. The target has been set at US$100bn by 2015 for ASEAN-India trade.[3]

Expectation about this new found partnership is high, especially at a time when two of India's largest trading partners, namely, the European Union (EU) and the US, are yet to show sign of economic expansion.[4] 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. Studies, as discussed in the literature review section, have pointed out about these potential winners and losers. What has, however, not been examined are areas, especially, in the services sector where further gains can be accrued. Internally, Indian policymakers should address domestic constraints affecting trade competitiveness and making it difficult for India to participate in the Southeast Asian and global production network.
At present, India has comprehensive economic cooperation agreements with Japan and South Korea.[5]

It is negotiating a FTA with Canada, and the 28-member EU. This paper points out much of

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the gains from these FTAs will be limited unless India address its domestic constraints, and open up opportunities for trade in services. The paper discusses complementarity in the trading relation within ASEAN, and ways India can participate in intra-ASEAN trade. It brings out challenges for India in the domestic front that makes it difficult for India to participate in the ASEAN production supply chain and suggest alternatives – the areas of services trade where additional gains can be accrued.

Literature Review

India-ASEAN FTA in its present form focusses mostly on merchandise items. At present FTA on services is under discussion. Accordingly, studies in the literature have focussed on the merchandise items. Sikdar and Nag (2011) find out of 4000 products, for 3200 items tariffs will be reduced to zero-level by 2013, while tariffs on remaining 800 items will be reduced to zero and close to zero by 2016.[6]

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 sector (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. The larger part of the gain will be accrued from liberalising the services sector and removing domestic constraints. India is a net exporter of most of the services for which the ASEAN countries are net importers (Sen, et al., 2004).

Complementarity in Trading Relation

A reason for ASEAN economic community progressing well has to do with the complementarities that exist in the trading relation. 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 2), 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 are restricted, there is a potential for the richer economies to invest in garment, machinery spare parts and foot ware industries of the 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 labor market becomes fully integrated, the ASEAN firms will gain from a more competitive labor force. At present ASEAN members have agreed to pilot a free labor 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.[7] Free flow of professional staffs increase chances for the companies to find the staff they need, making them more competitive.

India can take advantage of this dynamism in

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: Wall Street Journal, 2012.

Table 2: Broad Macroeconomic Indicators			
ASEAN	**GDP (US$bn)**	**Per-capita GDP Per Annum**	**FDI Inflow (US$mn)**
Brunei Darussalam	15.5	36584	629
Cambodia	12.9	852	783
Indonesia	845.7	3509	13304
Laos	7.9	1204	333
Malaysia	278.7	9700	9156
Myanmar	51.9	832	450
Philippines	213.1	2223	1713
Singapore	259.8	49271	35520
Thailand	345.6	5394	6320
Vietnam	122.7	1374	8000

Source: International Monetary Fund (IMF) Economic Outlook Database, 2012.

the ASEAN market. There exist huge potential for India to participate in the ASEAN production network system. In this respect, India can take lesson from China. Most of the trade happening between China-Thailand, and China-Viet Nam, relates to items in the capital goods sector, such as office machines, electric machines, road vehicles, etc. Thailand, Viet Nam and Cambodia, has become manufacturing hub for white goods (namely, consumer durables, like mobile phones, air conditioner, refrigerators, computers, etc.) and other electronic items. Most of the office machines, and electrical machineries that Thailand exports; 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 machines, automatic data processing machines, general industrial machines, and power generating equipment, forms bulk of China's exports to this region.

The energy source, particularly hydroelectric power generation on the Mekong river can be of use, to the booming and fuel hungry economy, of India. India can invest in hydroelectric power project in Cambodia. In the 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 2012, India's per-capita electricity consumption is 630 kilowatt per hour which is 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 3).

The erstwhile pariah state, Myanmar has opened up, and provides a huge investment opportunity for Indian firms. Already there is precedence. In 2002, the Government of India launched a Remote Sensing and Data Processing Progamme to help Myanmar with weather forecasting, determination of forest cover, and other land use. Indian firms, such as Larsen and Toubro, Adani Port, and NTPC 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 Electricals Limited, and Larsen Toubro.

Table 3: 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. Available at: http://www.cea.nic.in/reports/yearly/lgbr_report.pdf

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 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.

Domestic Constraints and Supply Chain

FDI flow to ASEAN region has increased from US$20bn in 2001 to US$110bn in 2012. However, this might not always be easy for developing countries. This is in spite of many developing countries having advantages in terms of cheaper labour and land. Developed countries such as the US and other Western European countries get more multinational funding because of transparency in business rules and low cost of doing business. Also, because of flexible labour laws and mechanisation of production, labourers are more productive in developed countries. This is in spite of labour being costlier in developed countries. Likewise, state-of-the-art infrastructure such as roads, ports, electric grids, telecommunication, and banks, often lacking or poorly established in developing countries, is essential for running a business.

Equally important is the tax regime. The tax system should be business friendly for foreign companies. It is advisable that the host countries do not change tax rules retrospectively or too frequently. From the policy side, to take advantage of the ASEAN production chain network it is important to build on these aforementioned attributes. India scores low on these attributes.

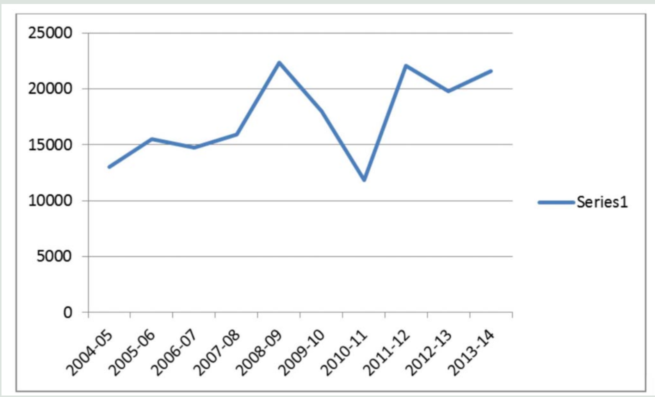
In 2011, India's contribution to trade in Asia-Pacific region was 34.8 per cent, a relatively low figure in comparison to 63 per cent for Singapore, 67.2 per cent for Malaysia, 63.3 per cent for Indonesia, 63.3 per cent for Thailand, and 63.5 per cent for Philippines (UNESCAP, 2011). To emerge as a natural trading partner for the ASEAN member countries there is a need to remove domestic distortions which are listed below:

High Cost of Doing Business

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 production and hence affect exports. 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.[8] Doing Business Report (2014), World Bank.

Figure 1 suggests, during the years following the financial crisis – between 2007 and 2011 – net-FDI inflow to India has fallen sharply. One reason for this is high cost of doing business in India.

Figure 1: Net FDI Flows (Inflow less outflow in US$mn)



Source: Indian Economic Survey, Government of India.

Frequent Change in Policy

Private investment, including FDI, has slowed down. This is primarily because of the Indian government changing policy rules frequently. A number of events since March 2012 have seriously dented India's image as a favourable investment destination. First is the much talked about Vodafone case where the Union Government in 2012 retrospectively changed the tax laws to penalise the UK-based telephone giant. Second is the cancellation of 2G mobile licences, sending a clear signal to the international business community about an uncertain policy environment in India. Third is the introduction of General Anti-Avoidance Rules (GAAR) in the 2012 budget which spooked foreign investors. Fourth is South Korea's steel major Posco getting approval for building a US$12bn steel plant in Orissa, India and a decade later it is yet to become operational. Fifth, in 2013, the Delhi State government under Aam Aadmi Party, reversed its predecessor, Congress government's decision to allow FDI in multi-brand retail.

Infrastructure

To become part of ASEAN production network, it is necessary to have a well-functioning infrastructure, including electric power, road and rail connectivity, telecommunications, air transport, and efficient ports. A reason for higher FDI inflow in the ASEAN region has to do with the rapid growth of international production networks, largely driven by multinational corporations, leading to increased intra-regional trade in parts and components (Athukorala and Yamashita, 2006). Unfortunately, India lags behind East and Southeast Asia in terms of infrastructure connectivity.

In 2012-13 the World Economic Forum in its Global Competitiveness Index Report places India in the 84th position (out of a total sample of 144 countries) when competitiveness is measured in terms of infrastructure development.[9] India, however, performed relatively better in terms of overall competitiveness (59th position), which takes into account other factors, such as a country's institutions, infrastructure, macro-economy, health, primary education, higher education and training, market efficiency and technological readiness.

India needs to invest over US$320bn in infrastructure. The break up figures during the eleventh five years plan (2007-12) includes US$130bn for power, US$66bn for railways, US$49bn for national highways, US$11bn for seaports and US$9bn for civil aviation.[10]

The government, on its part, has set a huge target of doubling investment in infrastructure from ₹20.5tn to ₹40.9tn during the twelfth five years plan period (2012-2017). The share of infrastructure investment in GDP is planned to increase to more than 10 per cent by the end of twelfth five years plan period. To achieve this target government will require investment from the private sector. 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 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.[11]

Unfortunately, private participation has fallen in recent times due to problems associated with regulatory constraints. The essential problem is coordinating among various stakeholders. A reason for cost and time overruns in infrastructure projects has to do with delays in land acquisition, inter-ministerial coordination and clearance, shortage of funds, and contractual disputes. Except for telecommunications, sectors such as power, ports, aviation, railways, and roads are witnessing slow progress in growth.

For instance, a power sector project in India requires clearances from 56 different authorities and ministries. These authorities spread across all three levels of the constitutional devolution – federal, state, and local bodies such as village panchayats and municipalities. It requires clearance from multiple ministries.[12]

It should be noted that each one of these ministries operate independently of one another and issues obtaining clearance from any one of these departments can delay the process of setting up a power plant. The National Democratic Alliance government which came to power in May 2014 is contemplating about merging various ministries so that a faster policy decision can be undertaken.

As to how a better infrastructure can provide impetus to growth, the stark example is that of The Golden Quadrilateral. This project, started by the Atal Bihari Vajpayee led National Democratic Alliance government in 2001, aimed at building four and six-lane highways to connect four metro cities, namely, Kolkata, Chennai, Mumbai, and Delhi. Other major cities which got connected include Bangalore, Pune, Ahmadabad, Surat, and Kanpur. According to the National Highways Authority of India, 99.71 per cent of the project work was finished during January 2013. The impact of this road completion was telling. Travel time between Kanpur and Kolkata has fallen from 48 to 36 hours (Business Today, 2013).

In addition to the ease of movement of goods and people, there are other economic benefits such as greater choice of locations for initiating industry activity and reduced wastage of agricultural sector.

Labour Market

The lack of labour market reform is preventing India to properly use its demographic dividend and to attract foreign investment in labour intensive modes of production. As per Global Competitiveness Index 2013, India ranked 61st in 'cooperation in labour-employer relations', and this has deteriorated to 90th position in 2014; on 'flexibility of wage determination', the ranking has fallen from 50th to 113th. Labour relations have to be rationalised and made more flexible. India has a vast pool of a young working population which also explains why labour cost is cheaper in India.

However, existing rigidities in the labour market is creating disincentives for the India's manufacturing sector to hire labourers. The legislative authority over labour issues falls with both the Central and the State governments. The concurrent nature of the labour laws causes problems. The State governments have the authority to amend central legislations or to introduce subsidiary legislations.

In addition, the enforcement of many labour regulations, even those enacted by the Central government, lies with the State government. There is a lack of unification and harmonisation of labour laws across States. Even definitions of wages, workman, employee, factory, and contract labour vary from one State to the other (Debroy, 2005). The variability in labour laws across States leaves room for a large degree of discretion for interpreting these laws, and thereby encourages corruption and rent-seeking activities. Because of this, firm owners become easy targets for the labour inspectors.

Judiciary

Investors will not be willing to invest if there is a delay in the settlement of disputes and weak governance. In 2008, more than 50,000 cases in the Supreme Court, more than 4 million cases in the high courts, and over 27.5 million cases in subordinate courts are awaiting disposal. Considering the total number of outstanding cases, every judge in the country will have an average load of about 2,147 cases. Many times number of judges available in courts are far less than what have been sanctioned.

India has 14,576 judges as against capacity to hire 17,641 judges, including 630 High Court Judges. This works out to a ratio of 10.5 judges per million population (Robinson, 2009). This ratio is also going to grow further with more and more people becoming literate. For example, in a relatively literate State of Kerala there is an addition of 28 new cases per 1,000 population per annum, as against 3 new cases per 1000 population per annum in the State of Bihar.[13]

The limited number of judges is certainly a reason for the existing high level of cases as well as the greater acceptance of appeal hearings. Between 2005 and 2008, around 12 per cent (6,900 out of 57,000 cases) were accepted for hearing in the Supreme Court. For the US this figure is around 1 per cent. It is very easy to appeal from a lower court to a higher court (Supreme Court). Added to this is the high acceptance rate of cases and one can clearly see the reasons for such backlogs.

Trade Costs

Trade costs account for all other additional costs incurred in moving a good to the final consumer other than the marginal cost of producing that good. All types of cost such as freight and time costs, information costs, contract enforcement costs, use of different currencies, language barriers, and lack of trade facilitation measures such as inadequate logistics of moving goods through ports, inefficient handling of custom documentation, lack of harmonisation of regulation standards, etc., all will be counted as part of the trade costs.

Much of the sources of trade costs result from a lack of trade facilitation and lack of availability of physical infrastructure in South Asia. For instance, in 2012, logistics costs in India were among the highest in the world (at 13 per cent of GDP), and inadequate infrastructure is responsible for holding back GDP growth by roughly 2 percent, or an annual hit of approximately US$20bn to economic progress. If countries in South Asia raise capacity building in trade facilitation halfway to that of East Asia's capacity, average trade is estimated to increase by US$2.6bn. This is approximately 60 per cent of the regional trade in South Asia. The areas that will provide the greatest gains are the service-sector infrastructure and efficiency in airtime and maritime ports (Banik and Gilbert, 2010).

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 to pay toll taxes and octroi, for inspections, etc. An estimate of the time taken at checkpoints shows that for a journey of 2,150 kilometres between Kolkata and Mumbai a truck had to stop at 26 checkpoints for as much as 32 hours (Deloitte–ICC, 2012). There is also a need to have agreement so that South Asian countries acknowledge one another standards, and have easier customs clearance procedures.[14]

Advantage India – The Case of Services

The previous sections bring out two important observations. First, there is limited gain to be made by liberalising trade in goods. A reason for this has to do with domestic constraints. Second, complementarities exist in trading relation. For India to gain meaningfully there is a need to become part of East Asian production network. Domestic distortions are standing in way of this integration, and there is a need to reduce them.

Another alternative for India is to focus on services where it has comparative advantage relative to manufacturing and agriculture. 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 (see Table 4).

Unfortunately, most of the multilateral negotiations stress 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.

Table 4: 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.

In this aspect, services score over goods. Instances of non-tariff barriers (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. But, the emphasis must be on services liberalisation.

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, 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).[15]

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 NDA government raising the

FDI cap on insurance to 49 per cent from the earlier 26 per cent there is a likelihood of India-Singapore CEPA becoming effective. Capital 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 any other ASEAN region, including 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.[16]

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 a great place for medical tourism. Table 5, suggests cost of medical tourism in India is least in the South East Asian region. 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 patient 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, 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,

Table 5: Prices for Medical Tourism in Select Countries, 2010 (in US$)

Procedure	US	India	Thailand	Singapore	Malaysia	Mexico	UK
Heart bypass (CABG)	113,000	10,000	13,000	20,000	9,000	3,250	13,921
Heart valve replacement	150,000	9,500	11,000	13,000	9,000	18,000	Na
Angioplasty	47,000	11,000	10,000	13,000	11,000	15,000	8,000
Hip replacement	47,000	9,000	12,000	11,000	10,000	17,300	12,000
Knee replacement	48,000	8,500	10,000	13,000	8,000	14,650	10,162
Rhinoplasty	4,500	2,000	2,500	4,375	2,083	3,200	3,500
Tummy Tuck	6,400	2,900	3,500	6,250	3,903	3,000	4,810
Breast reduction	5,200	2,500	3,750	8,000	3,343	3,000	5,075
Breast implants	6,000	2,200	2,600	8,000	3,308	2,500	4,350
Crown	385	180	243	400	250	300	330
Dental	1,188	1,100	1,429	1,500	2,636	950	1,600

Source: Lunt et. al. (2011)

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. Also, quite essential is the mutual recognition of standards in the India-ASEAN bilateral services agreements. For instance, both India and Philippines have advantage in providing nursing services. It is important for the member countries to recognise one another's degree/certification, and product standards.

Conclusion

India has signed a 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. There is a need to go beyond trade in goods, and cover areas in services. We find evidence of complementarities in trading relation.

A reason for ASEAN economic community progressing well has to do with the complementarities. Complementarities exist in terms of trade in energy, consumer durables and food items. For India to gain meaningfully there is a need 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. Domestic constraints in India are standing in way of this integration into production network, and there is a need to reduce them.

Specifically, we find for India there is a need to invest more in physical infrastructure, besides working in the areas such as reforming labour laws, reducing trade costs, a uniform tax policy, an effective judiciary, and better institutions to bring down cost of doing business, for becoming an active partner of ASEAN.

Indian policy makers should also try to negotiate for including more areas related to services. Potential gains by eliminating restriction in services trade outweigh by manifold than trade in goods. 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. Likewise, ASEAN countries have comparative advantage in logistic related services that can be of great help to India. For this new found partnership to prosper it is important that we make use of each other's strength.

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Endnotes

1 ASEAN is a geo-political and economic organisation of 10 countries located in Southeast Asia.

2 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.

3 http://www.thehindubusinessline.com/economy/indiaasean-ties/article6298703.ece. Accessed on September 09, 2014

4 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. Available at: http://www.forbes.com/sites/merrillmatthews/2013/04/17/seven-reasons-the-economy-could-be-headed-into-recession/. Accessed August 03, 2014

5 The objective of CECA is to promote free trade in goods (in accordance with Article XXIV of General Agreement on Trade and Tariffs) and services (in accordance with Article V of General Agreement on Trade in Services), and establishing a transparent, predictable and facilitative investment regime.

6 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.

7 http://www.bangkokpost.com/learning/learning-from-news/201159/asean-to-pilot-free-labour-market-for-professionals-in-2015 (Accessed on August 03, 2014).

8 Doing Business Report (2014), World Bank.
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9 World Economic Forum (2013). Available at: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf

10 From a speech by the Minister for Finance of India, P Chidambaram, at the London Business School on June 28, 2007. Available at: http://www.london.edu/facultyandresearch/researchactivities/birlaindiacentre/pastevents.html

11 OECD Country Reports (2013). Available at: http://www.oecd-ilibrary.org/economics/country-statistical-profile-china_csp-chn-table-en. Accessed, 03/04/2013.

12 Ministries involved are Coal, Railways, Environment, State Environment Committees, State Pollution Control Boards, Forest Departments, Central Electricity Authority, Power Grid Corporation, Central Electricity Regulatory Commission, State Electricity Regulatory Commission, State Transmission Commission, Irrigation Department, Civil Aviation, Power Ministry, Port Authorities, Chief Controller of Explosives, Custom Department, and in some cases, Clearances on Account of Impact on Wildlife, Coastal Zone and Archaeology.

13 http://articles.timesofindia.indiatimes.com/2010-03-06/india/28143242_1_high-court-judges-literacy-rate-backlog

14 For more on this see, Chatterjee (2014), "What we need to trade across borders". Available at: http://thesarcist.org/frmRegionalcorporation.aspx . Accessed on July 26, 2014

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

16 Available at:
http://www.livemint.com/Politics/F1Gkyfc88u2BL6pMGpPWQK/India-seeks-Singapore-investments-in-infrastructure-projects.html.

17 http://www.cii.in/Sectors.aspx?enc=prvePUj2bdMtgTmvPwvisYH+5EnGjyGXO9hLECvTuNu2yMtqEr4D408mSsgiIyM/. Accessed on July 25, 2014.

18 Apart from transport ministries and departments, several other ministries such as the Ministry of Finance, the Ministry of Environment and Forests and the Ministry of Consumer Affairs, as well as the Food and Public Distribution (which regulates inter-state movement of goods) regulate this sector.

19 http://finmin.nic.in/press_room/2013/fm_speech_ICSI22052013.pdf . Accessed on July 22, 2014.

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