

# Role of Agreement on Service sector in India ASEAN Trade Relation

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## Abstract

*With a population of more than 600 millions a nominal GDP of \$ 2.31 trillion, ASEAN (The Association of Southeast Asian Nations), made up of Indonesia, Malaysia, Phillipines, Singapore, Thailand, Combodia, Vietnam, Myanmar, Laos and Brunei Darussalam, is fast becoming a major economic force in Asia and a driver of global growth. India is a major trading partner of ASEAN with approximately 10.5% share of trade. India-ASEAN relations have witnessed remarkable growth in recent years. At the ASEAN-India Commemorative Summit 2012 in New Delhi we elevated our relations to a Strategic Partnership. Our relations have received new momentum under the Act East Policy. The relationship is set to deepen in days to come as the two sides step up their collaboration across a range of economic and strategic issues, including trade and connectivity, culture, people-to-people contacts, trans-national terrorism, and maritime security. With ASEAN and India working towards establishing a Comprehensive Free Trade Area through the Regional Comprehensive Economic Partnership (RCEP), their cooperation will be key to promoting political stability and economic prosperity in our shared region. There is a lot to be gained from a bilateral engagement between India and the Members of ASEAN in services, especially as the region remains relatively closed to Foreign Service providers. Services tend to be more value-added and generate greater economic returns than production of goods; they also create more jobs and are found to be the more efficient investment.*

*This paper analyses the opportunities in services trade that may arise out of the India- ASEAN Economic Cooperation to makes an assessment of the net gains that could arise from liberalisation of the commercially traded service sector. It analyses the economic scenario in the Asia-Pacific region and takes a macro overview of the trade creation potential of an agreement on trade in services between India and the members of ASEAN and India in the context of the ongoing attempts at multilateral liberalisation and the proliferation of bilateral/regional comprehensive new-age free trade agreements.*

Keywords: ASEAN, FDI, Investment, RCEP, Services, Liberalisation

## Introduction

ASEAN is an important part of India's vision of open, inclusive and rules-based security architecture in the Asia-Pacific region. ASEAN was formed in 1967 and its founding fathers had envisioned an organization which would include all the ten countries of Southeast Asia (SEA). It began with five Southeast Asian states (Indonesia, Malaysia, the Philippines, Singapore and Thailand); and others including the LMCV countries (Laos, Myanmar, Cambodia and Vietnam) joined later. An eleventh country, East Timor, is yet to be granted membership. The SEA countries are diverse and at varying stages of development- with Singapore at the

forefront and Myanmar still a least developed country (LDC). Southeast Asia is rapidly growing regional group which is effectively managing its diversity and growth. Southeast Asian countries have the highest trade to GDP ratio among the developing economies. Moreover the new economic policy of India has transformed the foreign trade scenario of India towards Southeast Asian countries. India has also earned a significant place in the global stage as far the trade is concerned. For the international investors, India and Southeast Asia both can provide a market of huge potential for growth.

India-ASEAN relations are a reflection of the complementariness of interests between the two entities. As India chooses to embark on a benign projection of its rising power, it has become imperative to chart a foreign policy commensurate with its ambitions in Asia and the world. For India's power to be accepted in the Asian Continent, it needs to look beyond its immediate neighbours in the sub-Continent, and diversify and cement its relations mainly with the South-East Asian nations, the very essence of its Look East Policy and its continuing effort to sustain and improve ties with a regional body like ASEAN.

In the Era of economic reform India's trade relations with its trading partner is changing. In the early 1990s the major trading partners were the East European countries, Middle East countries and the European Union. But from the middle of 1990s the Indian trade pattern (trade composition and direction had fundamentally changed. Today we are not only exporting the raw materials but sending manufacturing goods, machinery, chemical products and services to our trading partners. Not only that our focus for trade destinations also changed with changing global economic political scenario. Our policy makers appeal for Look East policy i.e. our trade destination should more towards ASEAN countries which might be emerge as our natural historic and cultural partner. In the present scenario our prime minister is of the opinion that "We should not only 'Look East' rather 'Act East' i.e. our policy must come into the action harness trading opportunity available to India in ASEAN member countries".

#### Journey of India- ASEAN Relations

Year	Events
1990	India adopts Look East Policy (LEP)
1992	India becomes ASEAN's sectoral dialogue partner
1996	India becomes full/ regional dialogue Partner of ASEAN
2002	India becomes ASEAN's Summit level partner
2003	ASEAN-India Framework Agreement on Comprehensive Economic Cooperation is signed
2004	1st Plan of Action aimed to foster partnership for peace, progress and shared prosperity is signed between ASEAN-India
2010	<ol style="list-style-type: none"> <li>1. ASEAN-India Trade in Goods Agreement (AITIGA) comes into effect from 1 January 2010</li> <li>2. 2<sup>nd</sup> Plan of Action is signed between ASEAN-India</li> </ol>
2012	<ol style="list-style-type: none"> <li>1. India and ASEAN observe 20 years of dialogue partnership at Commemorative summit organized in New Delhi</li> <li>2. India and ASEAN become strategic partners. ASEAN-India Centre (AIC) established to promote ASEAN-India Strategic Partnership</li> </ol>
2014	India announces adoption of Act East Policy at 12 <sup>th</sup> ASEAN India Summit in November 2014
2015	<ol style="list-style-type: none"> <li>1. ASEAN-India Trade in Services and Investment Agreements comes into force from 1 July 2015</li> </ol>

	2. 3 <sup>rd</sup> Plan of Action signed at 13 <sup>th</sup> ASEAN-India summit in November 2015. The POA focuses on political and security, economic and socio-cultural cooperation
2017	India and ASEAN to celebrate 25 years of dialogue partnership
2018	India hosted the heads of ASEAN countries as chief guests on the occasion of India's 69th Republic Day celebrations

Trade between ASEAN and India has seen strong growth over recent years. Trade between India and ASEAN stood at US\$ 65.04 billion in 2015-16 and comprises 10.12% of India's total trade with the world. The ASEAN-India economic integration process has got a fillip with the creation of the ASEAN-India Free Trade Area in July 2015, following the entry into force of the ASEAN-India Trade in Services and Investment Agreements. Conclusions of a balanced Regional Comprehensive Economic Partnership Agreement will further boost our trade and investment ties with the region. Over the past decade, bilateral trade has increased at an average annual rate of a blistering 23 percent. A key factor for this rising tide of trade has been India's "Act East" policy, which has reaffirmed India's plans to engage more substantially with the economies of its Southeast Asian neighbors.

The Agreement on Trade in Services under the framework agreement on comprehensive economic cooperation between India and the Association of Southeast Asian Nations (hereafter "the Agreement") is ASEAN's 6th regional trade agreement (RTA). It is however ASEAN's 3rd Agreement covering trade in services. The Agreement is India's 14th RTA but India's 5th RTA in trade in services. In commercial services, India ranked 5th globally in terms of both global exports and imports, amounting to US\$156 billion and US\$147 billion, respectively. This represents 3.15% and 3.07% of world exports and imports, respectively. Among the ASEAN members, Singapore accounted for the largest share of world trade followed by Thailand and Malaysia. Among the newer ASEAN members (Cambodia, Lao PDR, Myanmar and Viet Nam) Viet Nam had the largest share of exports and imports of commercial services, while Lao PDR has the smallest share. Commercial services trade for India in 2005-2014 show that India has run a constant trade deficit in these services. While its exports are dominated by other business services and computer and information services, key imports are transport and other business services. Figures on India's bilateral commercial services trade with ASEAN have not been made available. In terms of commercial services trade, ASEAN's top three traders (both for exports and imports) were Singapore, Thailand, and Malaysia. In general travel and transport services are important exports and imports although other business services are also important notably for Indonesia, the Philippines and Singapore.

### **Review of Literature**

Rupa Chanda and G. Sasidaran's (2008) examines the reasons underlying India's growing interest in framing various kinds of regional and bilateral agreements with Asian economies. The study concludes by looking at the prospects for future Preferential Trade Agreements by India and the various issues and interests that should shape India's future regional initiatives to assure the realization of its long term economic, strategic, and geopolitical objectives. Razeen Sally and Rahul Sen (2005), analyze the tradepolicies in Southeast Asian countries in their wider Asian and global contexts. The paper concludes that for ASEAN countries the engine of liberalization and regulatory reform has to be home-driven, with governments taking unilateral measures in response to internal and external conditions. Suparna Karmakar (2005), analyses the economic scenario in the Asia-Pacific region. This paper is an analysis of the economic scenario in the Asia-Pacific region and a macro

overview of the trade creation potential of an agreement on trade in services among members of ASEAN and India.

The association between India and Southeast Asia, in particular ASEAN and its member states, reflects the overall tendencies of the emerging regional infrastructure of East Asia.

### **Objectives**

The objectives of the paper are-

1. To study the significance of the association between India's services to ASEAN and India's total services to the world.
2. To find the opportunities of service sector in India- ASEAN trade relations.

### **Trade Environment**

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Based on available data on total inward and outward foreign direct investment (FDI) stocks with the world for each ASEAN Member State, Singapore remains the largest source and destination for FDI. It is also the largest investor in India and the largest recipient of FDI from India among ASEAN members.

Regarding total foreign direct investment flows by ASEAN member states during 2005-2014, for its investment in India, Singapore has consistently been the largest recipient and provider of direct investment from and to the world, respectively. Malaysia and Indonesia have consistently been the second and third largest providers of

FDI during the period surveyed. Thailand and Malaysia have consistently been next as the second and third largest recipients of FDI, respectively, for most of this period. In the second part of the period, Indonesia became the third destination for FDI, following Singapore and Thailand.

## **General Provisions on Trade in Services**

### **Market access**

The market access provisions mirror the language of Article XVI of the GATS (Article 18). The Parties' market access commitments are contained in their Schedules of specific commitments.

### **National and MFN treatment**

The national treatment provisions mirror the language of Article XVII of the GATS (Article 17). The Parties' national treatment commitments are contained in their Schedules of specific commitments. The Agreement does not contain provisions on MFN treatment.

### **Commercial presence**

No specific provision on commercial presence, per se, is stated by the Agreement. The limitations on commercial presence in the services sectors are contained in the Parties' schedules of commitments.

The Agreement on Investment of the Framework Agreement on Comprehensive Economic Cooperation between the Parties contains a provision affecting the supply of a service by a Party's service supplier through commercial presence in the territory of another Party. The Agreement on Investment shall not apply to measures adopted or maintained by a Party to the extent that they are covered by the Agreement (Paragraph 4(a) of Article 1 of the Agreement on Investment).

### **Performance requirements**

No specific provision on performance requirements, per se, is stated by the Agreement. The limitations related to performance requirements in the subscribed services sectors are contained in the Parties' schedules of commitments. Parties' additional commitments, including those regarding qualifications, standards or licensing matters are included in their Schedules of specific commitments (Article 19).

### **Key features of the Trade in Services Agreement:**

- The Trade in Services Agreement with the ASEAN contains all features of a modern and comprehensive agreement on Services and is in line with the other bilateral agreements that India has signed so far. Some of the important Articles contained in the Agreement are ones on transparency, domestic regulations, recognition, market access, national treatment, increasing participation of developing countries, joint committee on services, review, dispute settlement and denial of benefits.
- Both India and ASEAN Member States have taken GATS plus commitments in various Services and modes of supply. Each ASEAN Member State has tabled individual schedule of commitments which are equally applicable for India and other ASEAN Member States. India on the other hand has tabled three schedules of



commitments one for Philippines, one for Indonesia and one for the remaining eight ASEAN Member States. It was also agreed by India that in order to increase participation of the least developed countries no additional requests would be tabled to the CLMV countries (Cambodia, Lao, Myanmar and Vietnam). All the three schedules tabled by India are well within the existing autonomous regime of India.

- A brief annex on Movement of Natural persons (one of the key areas of interest for India) has been included in the Agreement. This Annex defines Business Visitors, Intra Corporate Transferees (Managers, Executives and Specialists) and Contractual Service Suppliers. This will help provide commercially meaningful market access in ASEAN for our professionals, including those from the IT/ITeS sector. Independent professionals have not been defined in the Annex.

As part of broader initiatives for further integration such as the ongoing India-Mekong Corridor infrastructure developments, and the integration of the Regional Comprehensive Economic Partnership ('RCEP') within ASEAN's existing FTA partners of China, Japan, South Korea, Australia and New Zealand, the India-ASEAN region is poised to become a significant engine of growth in the coming decades. It is worth mentioning that many of the RCEP members are also part of the US-led Transpacific Partnership Agreement to which India is not a member; thus effective implementation of the Services FTA is necessary to mitigate any potential negative impacts caused by the RCEP. Additionally, the Services FTA is intended to give rise to greater business opportunities for Indian investors in places where Indian FDI has been historically low. India is often criticised for its dismal investment levels in its neighbouring countries. Large Indian investors have generally stayed away from many such countries despite other powerhouses such as America, Japan and China aggressively establishing their presence.

### Conclusion

India ASEAN always tries to make a progressive and strong relationship in each and every sector. AIFTA is a big achievement in this direction. There is a point has been noted that India is not a member country of ASEAN while the trade of India with ASEAN is increasing day by day. Under PM Modi, "Look East" is changing into "Act East". ASEAN is India's second largest trading partner. After a steep rise in 2011–12 (up 40.4 per cent YoY), the trade value remained stable till 2016–17. Close engagement and further cooperation should be prioritized by both sides if the full potential of this engagement is to be realized. With the introduction of the Services FTA, it is expected that more balanced trade relations between the two regions with spawn. Integration of Financial Services, IT services, Transport and Logistics, Education, BPO Services, Health Services, the recognition of professional qualifications and free movement of persons may provide for sweeping change. If successful, the region appears in a sense to be doing away with the dividing titles of 'South Asia' and 'Southeast Asia', but rather towards a unified region. Comparative advantages will make themselves felt as deeper integration continues, and for the present, the best case scenario for potential mutual benefit looks promising.

The results suggest a high level of foreign direct investment can generate high level of economic growth and a high level of economic growth can generate high level of foreign direct investment. That means the policy implications are very straightforward. To get more economic growth and development, we need to bring more and more foreign direct investment from neighbourer country like ASEAN nations. And to get more

foreign direct investment, there is need of sustainable economic growth in the economy. The agreements on economical, political and cultural are likely to increase the India-ASEAN trade. The target is to achieve \$200 billion by 2022. To achieve this targets India ASEAN taken many positive steps and hopeful to achieve. In the past year, New Delhi has tried to focuses on ASEAN nations to make strong relationship, for this purposes government has taken massive decisions to attract FDI from ASEAN and facilitate to Businessman of ASEAN nations. In this context the ASEAN-India Centre was inaugurated in New Delhi on 21 June 2013. It will be a resource centre for India-ASEAN strategic partnership. The External Affairs Ministry is also setting up a separate ASEAN-India Trade and Investment Centre to strong relationship. It is also notice that India ASEAN free trade agreement in Goods and services open the door for business and to increase the volume of trade among them.

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