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WORKING PAPER NO. 176

## **INDIA–ASEAN COOPERATION IN SERVICES – AN OVERVIEW**

*Suparna Karmakar*

NOVEMBER 2005



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The views expressed in the ICRIER Working Paper Series are those of the author(s) and do not necessarily reflect those of the Indian Council for Research on International Economic Relations (ICRIER).

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## **Foreword**

Over the last decade, international trade in services has been growing at a somewhat higher rate than trade in goods (merchandise trade). The countries in the Asia-Pacific region with the considerable demographic advantages have been significant beneficiaries of the development. Phenomenal growth of services sector has outstripped the growth in real GDP in a number of economies in Asia. Both India and Members of the ASEAN have stakes in the sector and under the India-ASEAN CECA negotiations are working towards maximizing the potential benefits that may arise out of the integration of the service sectors of the two trading partners.

This paper analyses the opportunities in services trade that may arise out of the India-ASEAN Economic Cooperation to make 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.

The study suggests that at least in the medium term (until the conclusion of the AFAS negotiations ending with the service sector integration within ASEAN), 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. The pillars of negotiation should be both market access and other consular cooperation, including signing of MRAs and other related Domestic Regulation issues.

This paper is a part of an ongoing scoping study by ICRIER to estimate Indo-ASEAN Trade Opportunities in Services.

**Arvind Virmani**  
Director & Chief Executive  
ICRIER

November 2005

## **I Introduction**

The world economy has fast turned into a ‘service economy’ since the 1990s. Services revolution across the globe has changed the business map and the way business is conducted. Phenomenal growth of services sector has outstripped the growth in real GDP in a number of economies from Asia. While developed countries still account for the lion’s share of services in world GDP and trade, developing countries have recently started to carve out an increasingly larger share of the pie for themselves. Available information on trade in commercial services by country in 2004 indicates faster growth in commercial services trade in the Asian economies than in the North American or European economies. This high growth of services has been aided by the expansion of trade in services due to increased tradability of a variety of business and other services. Amongst the different services sectors, trade in business and professional services including data processing, accounting and related financial services, ITeS (viz. BPOs), computer services, management consulting, hardware consulting, legal, and architectural and engineering services have witnessed phenomenal expansion in recent years. This, however, could largely be attributed to a number of services sector firms from the US & EU, who have taken recourse to offshoring and outsourcing of their non-core activities to take advantage of the low-cost high-skilled professionals from the developing countries.

Over the last decade, international trade in services has been growing at a somewhat higher rate than trade in goods (merchandise trade), though services constitute at best a fourth of total (goods and services) international trade; between 1990 and 2000, global exports of services registered a growth of over 7% as compared to a growth rate of 6% in goods. Rapid advancement in technology and innovations (especially in communication, transportation, and information processing) accompanied by an increased integration of financial markets have increased the tradability of services, which has further facilitated the expansion of cross-border trade in services. Further, existence of two-way spillovers from growth in both manufacturing and service sectors indicate the sustainability and further strengthening of the growth and trade prospects of services; demand is expected to be coming from both producer services as well as consumer services. In particular, high growth developing regions as the

Asia-Pacific stand to gain the most from consolidation of the above trends, from the perspective of both employment generation and stabilisation of growth prospects in the region.

The objective of this paper is to set out the context in which opportunities in services trade may arise out of the ongoing India-ASEAN Economic Cooperation, and to make an assessment of the net gains that could arise from liberalisation of the commercially traded service sectors between the trade partners. Thus, as per the very conceptualisation, 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 the members of ASEAN and India, in view of the ongoing attempts at multilateral liberalisation under the GATS and the proliferation of bilateral/regional comprehensive new-age free trade agreements (the ‘spaghetti bowl syndrome’ a la Prof. Bhagwati), now encompassing agreements on investment and services in addition to goods trade liberalisation, across the world.<sup>1</sup> Section II sets out the current economic scenario and discusses the policy initiatives taken by Member governments to liberalise the service sector of their respective economies; the growth potential of GDP and trade between the trade partners, in particular in the service sector, are analysed in Section III. Section IV outlines the key negotiating elements for the India-ASEAN service trade cooperation agreement, while the final Section V concludes.

## **II General Economy and Policy Initiatives in ASEAN & India**

Though the region boasts of centuries-old politico-economic and cultural ties, it is the period since the early 1990s that has witnessed a perceptible shift in positive direction in the relations between India and the Members of ASEAN<sup>2</sup>, which is rather different from the situation prevailing during the Cold War era; this has been aided to a large extent by India’s

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<sup>1</sup> Economists and policy observers in a recent seminar in Kuala Lumpur on North-South FTAs, organised by the Third World Network, reiterated the emerging popular view that “bilateral free trade agreements (FTAs) are being made use of by major developed countries to obtain concessions from developing countries that they are unable to get through negotiations in the World Trade Organisation, and the developing countries should thus be on their guard against accepting such *WTO-plus* obligations that they had rejected in the multilateral forum”.

<sup>2</sup> ASEAN presently is a regional grouping of 10 Asian countries, namely Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

'Look East' Policy, enunciated in 1991. The economic and political interactions have increased manifold ever since, in particular after India was invited to be a full dialogue partner with ASEAN at the Fifth ASEAN Summit in Bangkok in December 1995 and India's becoming a Member of the ASEAN Regional Forum (ARF), and the two parties have agreed to explore avenues of taking advantage of the emerging economic opportunities for mutual benefits.

As a precursor to attaining the stated long-term objective of a India-ASEAN Regional Trade and Investment Area (RTIA), and recognising the need to further promote and facilitate their cooperation and utilisation of greater business opportunities provided by the India-ASEAN RTIA, India and the ten Member countries of ASEAN signed the India-ASEAN Framework Agreement on Comprehensive Economic Cooperation (CECA) in Bali, on 8<sup>th</sup> October, 2003. This forward-looking Agreement is aimed at forging a closer economic partnership in the 21st century between the ASEAN Member countries and the Republic of India by minimising barriers and deepening economic linkages between the trading partners, lowering costs, increasing intra-regional trade, investment and productive efficiency, and carries forward the historical economic and commercial ties established between the peoples of the two regions since time immemorial. The CECA is expected to create a large market of over 1.5 billion people, with a combined current GDP of \$1.2 trillion, and will cover agreements in investment and services, in addition to trade in goods. Accepting that the total size of the market is an important determinant of realisation of the potential gains from a RTA, the India-ASEAN CECA is a step forward in the attempt by the East Asian economies to carve out a trading block which can somewhat counter the distortions created by the existing trading blocks in the Western hemisphere, viz. NAFTA and the EU25.<sup>3</sup>

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<sup>3</sup> ASEAN is also working towards finalising a trade agreement with China. The current combined GDP of ASEAN-China is almost double of the market size of the ASEAN-India combine. Internally also, ASEAN 10 Members feel the need for closer integration: "We need to work together to counter Europe, China and India as well. Right now we don't have power to negotiate in the international arena...[such as in] the World Trade Organization," Utt Pisarnwanich, an economics professor at the University of the Thai Chamber of Commerce. 24 November 2005, Source: <http://www.manager.co.th/IHT/ViewNews.aspx?NewsID=9480000162566>



**Table 1: Macro Indicators (2003)**

	<b>GDP at Current prices (Million US\$)</b>	<b>Rate of Growth in GDP (%)</b>	<b>GDP per capita (US\$)</b>
<b>India</b>	600,658	8.2	508
<b>ASEAN</b>	685,981	5.0	1,266
Brunei	4,715	3.2	12,971
Cambodia	4,215	5.0	310
Indonesia	208,625	4.1	973
Laos	2,043	5.9	362
Malaysia	103,737	5.3	4,198
Myanmar	9,605	5.1	179
Philippines	79,270	4.7	973
Singapore	91,355	1.1	20,987
Thailand	143,303	6.8	2,291
Vietnam	39,021	7.2	481

Source: ASEAN Statistical Yearbook, 2005; RBI Handbook of Statistics (Values converted from Rupees to Dollar using \$1 = Rs 45.95)

**Table 2: Comparative Market Size - GDP at Current Market Price  
(US \$ Billions)**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>EU25</b>	8,240.25	8,311.21	9,060.77	11,004.48	12,690.64
<b>NAFTA</b>	11,060.02	11,375.77	11,802.93	12,444.15	13,323.77
<b>ASEAN + India</b>	1,054.18	1,053.74	1,150.29	1,317.26	
<b>ASEAN + China</b>	1,677.55	1,750.93	1,912.00	2,133.21	

Source: World Development Indicators, 2005

The combined GDP of ASEAN Members in 2004 was US\$ 800,735 million<sup>4</sup>, approximately 1.17 times India's recorded GDP in the same year, and is poised for sustained growth. The region's economy has finally come out of the shadow of the Asian Crisis of 1997, and is expected to continue its upswing; most economists believe that the region will expand at an average 5-6% for the next few years. The growth is likely to be a broad-based one, with both domestic and external demand providing the impetus for expansion. Within the ASEAN and for individual Member countries, integration has been facilitated mainly by trade, in particular in the manufacturing products (and unfortunately also in a narrow range of commodities); trade openness of the region has been very high in the last three decades or so,

<sup>4</sup> Data source: [www.aseansec.org](http://www.aseansec.org)

and on an average for the region, is over 150% of the combined GDP of the Members.<sup>5</sup> However, intra-regional trade continues to be small at less than 30%<sup>6</sup> of total ASEAN trade (details in Appendix **Table 1**), and the Members are often dependent on the US and EU for their export markets; this is a crude indicator of the imperfect integration that ASEAN Members have achieved so far. Hence, the key to ASEAN's economic competitiveness and future growth is expected to lie in 'economic integration' with the rest of Asia, an agenda which the Members are following vigorously by forming groupings like ASEAN+1 with several countries, ASEAN+3 with China, Korea and Japan, and an East Asian Community (EAS); necessary policy reforms are being undertaken to complement the growth and export targets of Members and for effecting the regional integration.

Within the regional block, the ASEAN Members are working towards realising the aim of establishing an ASEAN Economic Community (AEC) by the year 2020, when ASEAN will be a single market and production base, with free flow of goods, services (people) and investment and freer flow of capital. The ASEAN Leaders have reiterated this at their Bali Summit in October 2003, when they adopted the landmark Bali Concord II in which the AEC, the ASEAN Security Community and the ASEAN Socio-Cultural Community are affirmed as the three key pillars supporting the ASEAN Community. ASEAN is formulating detailed medium to long-term programs and activities for achieving the AEC. The ASEAN Economic and Investment Ministers met in Sentosa (Singapore) in April 2004 to review the progress made in the implementation of various initiatives mandated by the ASEAN Leaders to strengthen the AEC, and endorsed a plan for finalising the roadmaps for the integration of 11 priority sectors which ASEAN enjoys competitive advantage. These 11 priority sectors are automotive, wood-based products, air travel and tourism, e-ASEAN, electronics, rubber-based products, textile and apparels, agro-based products, fisheries, information and communications technology (ICT) and healthcare. The respective Country Coordinators in these 11 priority integration sectors are as follows:

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<sup>5</sup> Singapore, the city state, has a trade-GDP ratio of over 350%.

<sup>6</sup> This data pertains to the goods part of ASEAN trade; further details in the Appendix Table 1. Informal interactions with officers from the ASEAN Secretariat indicate that the intra-AFTA trade is even smaller; under the preferential regime, the intra-regional trade presently stands at less than 2%.

- (i) *Indonesia*: wood-based and automotive products;
- (ii) *Malaysia*: rubber-based products, and textiles and apparels;
- (iii) *Myanmar*: agro-based products and fisheries;
- (iv) *The Philippines*: electronics;
- (v) *Singapore*: e-ASEAN and healthcare;
- (vi) *Thailand*: air travel and tourism.

The Ministers, in November 2004, at the 10th ASEAN Summit in Vientiane have signed the legally-binding agreements<sup>7</sup> to implement the measures to integrate the 11 priority sectors, expected to be completed by 2012, and the roadmaps for integration of these sectors have been clearly outlined. These would cover some 4273 tariff lines at a 6-digit level in 12 key product categories. To settle differences and disputes in implementing the economic agreements, the Ministers also endorsed the provisions for establishing the ASEAN Dispute Settlement Mechanism (DSM).

Simultaneously, the Ministers also decided to recommend to their Leaders to go for a free trade agreement (FTA) with Australia and New Zealand. Already, through bold, pragmatic and unified strategies, ASEAN has established strong economic linkages with major trading partners like China, India, Japan and the Republic of Korea, creating closer economic partnerships aimed towards ending up as FTAs, to boost market access for ASEAN exports and provide businesses with greater choice of capital and intermediate products. Scoping studies are currently on for an ASEAN-US Trade and Investment Framework Agreement. ASEAN Member states are also individually negotiating bilateral/regional FTAs with different countries, all in various stages of negotiation (details in Appendix **Table 3**). Hence, one finds a veritable mushrooming of the preferential agreements being negotiated by the ASEAN Members, as a group, and also individually. However, none of the existing bilateral and regional agreements of ASEAN and its Members in services offer access to trade

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<sup>7</sup> ASEAN Framework Agreement for the Integration of Priority Sectors; Vientiane, 29th November 2004, <http://www.aseansec.org/16659.htm>

partners that go beyond the existing unilateral liberalisation in concerned sectors in partner countries.<sup>8</sup>

As discussed earlier, ASEAN integration is mostly focussed on liberalisation of trade in goods; agriculture and services continue to remain largely protected by Members through strict domestic regulation requirements and other conditionalities, for both intra-ASEAN trade and also trade with the rest of the world. However, keeping the need for a comprehensive integration in mind, under the ASEAN Framework Agreement on Services (AFAS), the ASEAN market for services is also being liberalized and integrated, with several sectors at various stage of negotiation. So far, the ASEAN countries have engaged in three rounds of services negotiations producing four packages of commitments on services sectors. The sectors in which Members have taken commitments in ASEAN are: tourism and air-transport services, business services (including professional services), construction services, financial services, healthcare services and ICT & telecommunication services. In August 2005, ASEAN started the fourth round of services negotiations, in order to achieve “higher quality and deeper level of services commitments”<sup>9</sup> with the explicit aim to accelerate the integration of four important services sectors for the Members, namely travel, tourism, healthcare and e-Asian. “The other services sectors, including professional services, are targeted for liberalisation by 2020, although consideration is being given to advance the timeline to 2015 with flexibility for sensitive sectors”<sup>10</sup>. The Forum reiterated the commitments made earlier at Vientiane for a speedier liberalization progress of the regional service market. In the 10th ASEAN Summit in 2004 at Vientiane, it was agreed that:

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<sup>8</sup> Even the Thailand Singapore Trade Agreement (which includes a retail distribution deal), irrespective of its attempt to push a regional integrated economic zone, doesn't “mark any significant policy shift for either country, or involve substantial investments”, writes Suzanne Nam in a media report issued from Bangkok; Thailand and Singapore sign 9 deals, 24 November 2005, <http://www.manager.co.th/IHT/ViewNews.aspx?NewsID=9480000162566>

<sup>9</sup> Opening Speech by His Excellency Secretary-General of ASEAN H.E. Mr. Ong Keng Yong, “Towards a Free Flow of Services in ASEAN”, at the ASEAN Forum on Trade in Services, 5-6 July 2005, Viet Nam

<sup>10</sup> Statement of the International Trade and Industry Minister of Malaysia, Datuk Seri Rafidah Aziz, at the opening the CPA Australia 9th Asian Regional Conference at Kuala Lumpur; [http://www.bernama.com.my/bernama/v3/news\\_business.php?id=151050](http://www.bernama.com.my/bernama/v3/news_business.php?id=151050)

“Member States shall integrate Trade in Services by:

- (a) setting clear targets and schedules for progressive liberalisation for each round of negotiations towards achieving freer flow of trade in services earlier than 2020<sup>11</sup>;
- (b) accelerating the service liberalisation for the priority sectors by 2010;
- (c) accelerating the development of Mutual Recognition Arrangements by 1 January 2008;
- (d) applying the ASEAN-minus-X formula; and
- (e) promoting joint ventures and cooperation, including third country markets.”

The most recent target for a possible end-date for a free-flow of services within ASEAN is 2015, though from the experience of the last 40 years of ASEAN integration, this seems hugely optimistic. However, in order to achieve this goal, ASEAN Members have agreed to set clear targets and schedules of services liberalisation for each sector and each round. They have also decided to proceed with a WTO-plus modalities of liberalisation<sup>12</sup> in order to speed up integration, wherein, unlike the established method in GATS, liberalisation modalities to be chosen can vary from request-offer to formulae and sectoral approaches of liberalisation, depending on the feasibility of effecting such modalities given the sensitivities of different services sectors in the Member countries. Evidently, the sectors in which Members have common interests and in which trade within ASEAN is deepening, will be natural candidates for rapid formulae based liberalisation.

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<sup>11</sup> This is another GATS-plus element in the AFAS. GATS does not outline any outer frontier for end-of-services-negotiations; the goal is ‘freer trade’ and not ‘free trade’. This specification of a ‘end-date’ for integration, however, is a common feature in all regional groupings aiming to form a Economic Union.

<sup>12</sup> It would be pertinent to note here that in most FTAs, led by developed countries, the services liberalisation follows the ‘negative-list’ modality, aimed at enhancing market access by a rapid and forced liberalisation of a minimum number of sectors within the block. This is ‘GATS-plus’, for GATS follows a ‘positive-list’ approach, which allows WTO Members to take sectoral commitments at their own pace keeping in mind the development concerns and national policy imperatives and requirements. Many policy analysts are unhappy at this overturn of the GATS architecture through the bilateral FTAs/RTAs, which according to them has the potential of generating soft support to reverse the WTO-GATS mandate on services liberalisation modalities.

Members have also agreed to take deeper inter-ASEAN commitments in mode 3 and reconcile the relevant services sectors into the common investment policy being worked upon to facilitate the regional integration process. Additionally, the relevant service sectors that are covered in the fast-track ‘priority sectors’ integration mode (to be achieved by 2010) are broadly: air-travel, ICT (especially e-commerce) and healthcare. Further, given its importance as a critical business infrastructure and input, financial services are also being liberalised by most of the ASEAN Members as a priority sector. ASEAN is also in the process of concluding MRAs for qualifications in major professional services areas like engineering, accountancy, architecture, surveying and nursing services<sup>13</sup>, in order to facilitate free movement of professionals, skilled labour and talent.

Another important area of intra-ASEAN cooperation is closer regional integration through integrated and efficient infrastructural linkages for transportation, telecommunications and energy. Concrete measures are taken towards the realization of the ASEAN Highway and Singapore-Kunming Rail Link (SKRL). ASEAN transport facilitation agreements covering transit and inter-state transport of goods, as well as multimodal transport operations, to support AFTA and improve transport logistics in the region are being implemented. An ASEAN action plan for open-sky arrangement is being formulated. The ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Networks are being institutionalized. In the implementation of e-ASEAN Agreement, concrete steps are being taken in advancing ICT market integration and trade facilitation, promoting universal access to ICT infrastructure and services, developing ICT skills and competencies and creating a more secure cyberspace in ASEAN. All these areas therefore present opportunities for curving out closer integration in the context of the proposed India-ASEAN CECA. And despite the concerns over the diverse historical experiences, legal systems, cultural backgrounds and economic development which act as a deterrent for harmonising the mental and operational maps of the trade partners, there does seem to be a growing convergence of strategic interests which needs to be put to optimum use without delay.

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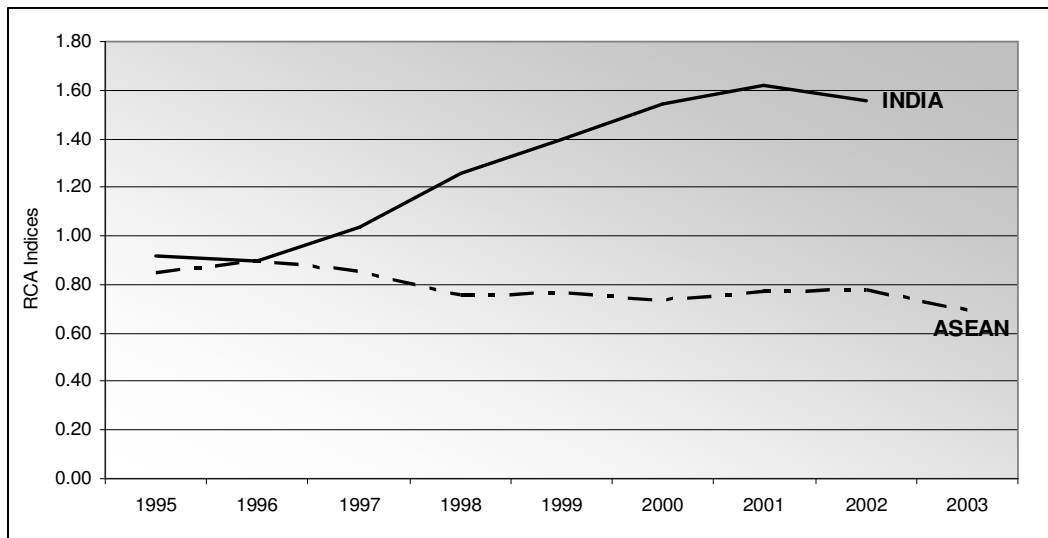
<sup>13</sup> Datuk Seri Rafidah Aziz, op cit.

In the case of India, services have been one of the thrust areas for over a decade. While agriculture continues to hold the most important position in the economy, given the high employment-generating ability and livelihood-insurer character of the sector in India, it is services that have become the growth engine in the economy in the last decade or so. Not only has the sector been growing at a steady pace of close to 10% for the last decade and contributing over half of India's GDP growth each year, services exports from India has seen double digit growth in the last decade<sup>14</sup> and has continued to be one of the main sources of foreign exchange earning in the country. In 2004, exports of services from India grew by 16%. According to WTO International Trade Statistics 2005, India's share in world services trade stands at 1.9% vis-à-vis a 1.0% for merchandise trade; India also exhibits a strong revealed comparative advantage (RCA) in services relative to goods, with the competitiveness and contribution emanating primarily from the other business services category (details in appendix **Table 2**).

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<sup>14</sup> NASSCOM estimates: India's annual average growth rate of export of services during 1993-2002 has been over 17% against the world average of 5.5%; corresponding figures for 1998-2002 are over 22% and 4%.

**Chart 1: Comparative Trends in RCA in Services**



Data Source: IMF – Balance of Payments Statistics, 2005; author's calculations

India's Foreign Trade Policy (FTP) 2004-09 recognises the importance of services in the overall trade performance of the country, by proposing to create a 'Served from India' brand, and setting up an exclusive export promotion council for services sector along with schemes to assist and promote home-grown service providers. The Council is expected to map opportunities for key services in key markets, and develop strategic market access programmes, including brand-building in co-ordination with sectoral players and recognised nodal bodies of the service industries. Also, Common Facility Centres are proposed to be set up for use by home-based service providers, particularly in areas like engineering and architectural design, multi-media operations, software developers etc. to draw a vast multitude of home-based professionals into services export arena. It is expected that the new policy will help broad-base services exports from the country, to include as many of the 161 tradable services covered under the General Agreement on Trade in Services and where payment for such services is received in free foreign exchange; service sector exports from India are currently dominated by software exports. The expectation is that services exports will grow to US\$ 150 billion by 2009 in which software services will account for about US\$ 65 billion.<sup>15</sup>

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<sup>15</sup> Foreign Trade policy 2004-09, <http://dgftcom.nic.in/exim/2000/policy/pol05/chap-3.htm>



India's services-led export boom in the last decade and the surplus of the increased invisible earnings had in fact fully offset the net merchandise trade deficit till last year<sup>16</sup>, and is the consequence of a more liberalised policy regime in services as compared to manufacturing. The emergence of India as one of the fastest growing economies in the world during 1990s was attributable to a significant part to the rapid growth of its services sector, which grew at an annual average of 9%. In services, India pursued significant reforms, especially in telecommunications, and, to some extent, in financial services and infrastructure services, such as power and transport. The result also was that, at over 17% annually in the 1990s (with exports of software and IT enables services growing at around 46% since mid-1990s), India's services exports have experienced one of the fastest growths globally in the last decade, compared to the world average of 5.6%<sup>17</sup>. In 2004, India's service exports constituted 34.4% of the country's global exports (goods and services) (at US\$ 39.64 billions out of US\$ 115.23 billion total exports), while service imports were 29.61% of total imports (at \$40.95 billions out of \$138.29 billion total exports); however, globally, India remained a net importer of services (though, in 2004, the service trade deficit was only 5.69% of the total trade deficit of US\$ 23.1 billion)<sup>18</sup>. In services, the areas of policy focus, liberalisation and high growth in India have been: software, ITeS (including financial IT services) & BPO, besides emerging areas as healthcare (in particular diagnostics and surgeries), telecommunication, and more recently in professional services, distribution and government services.<sup>19</sup> It should be noted here that unilateral service sector liberalisation in India has been most focussed in mode 3 (or commercial presence), and mode 4 access (movement of natural persons) is still restricted in many services sectors.

India is also working hard to offset its current disproportionately low participation in bilateral and regional agreements with trade partners by engaging into discussions on economic and trade cooperation with a multitude of countries and regions across the world. While retaining its support and commitment to multilateralism per se, most of these

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<sup>16</sup> DGCIS data and RBI estimates.

<sup>17</sup> *Sustaining India's Services Revolution*, World Bank, 2004.

<sup>18</sup> Calculations from data published in the WTO International Trade Statistics, 2005.

<sup>19</sup> Macroeconomic and Monetary Developments in 2004-05, RBI, April 2005.

agreements under the forge-closer-regional-integration initiative are focussed on enhancing non-MFN merchandise trade opportunities with its key trade partners, as also improved market access for services and investment, and preferential liberalisation thereof. India has signed limited free trade agreements with Sri Lanka (1998) and Thailand (2003) plus a number of preferential trade agreements (tariff concession schemes) with countries such as Afghanistan, Chile, N.Korea, Mongolia, Mauritius, Japan and Maldives; India also has transit agreements with its immediate neighbors in the SAARC region. At the end of June 2005, the government signed a Comprehensive Economic Cooperation Agreement (CECA) with Singapore<sup>20</sup>, what many consider India's first "comprehensive" FTA. By the end of 2005, India expects to upgrade its pact with Sri Lanka into a Comprehensive Economic Partnership Agreement. Currently, other than the ASEAN, bilateral negotiations are going on with Bangladesh and Korea, about to start with Mauritius and the GCC, and India is also considering talks with Egypt, MERCOSUR and SACU (Southern African Customs Union). In the most recent development, there has been discussions on the feasibility of India's working out a Services-Only Agreement with the US & EU, the two largest trade partners of India in services. Further details of India's current engagements in bilateral and regional FTAs can be found in Appendix Table 4.

The other area of gain and strategic cooperation lies in energy-trade and energy-services cooperation. Taking forward the Asia-Pacific Energy Cooperation would be critical to the long-term growth and development in the two trade partners, as well as the Asian region as a whole. The Trade and Economic Relations Committee (TERC) headed by the Prime Minister of India Dr Manmohan Singh, is strongly in favour of a rapid conclusion of the FTA negotiations to enhance economic relations with the neighbouring countries.

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<sup>20</sup> A brief summary of the two trade partner's service commitments in the Indo-Singapore CECA can be found in Annexure I. The sectors which Singapore gets preferential access into India include business services, construction and related engineering services, financial services, telecommunication services, tourism and travel related services and transport services. India would be able to enjoy preferential treatment for sectors such as business services, distribution services, education services, environmental services and transportation services.

### III India-ASEAN Service Trade Potential

Despite challenges, the India-ASEAN bilateral (primarily merchandise) trade has been growing; in 2003-04 bilateral trade was about US\$ 13.25 billion (with India's exports to ASEAN at US\$ 5.8 billion and imports at about US\$ 7.4 billion), which is over 5 times the 1993-94 trade figure of US\$ 2.5 billion. Since the start of formal engagements to establish the India-ASEAN CECA in 2002, bilateral trade has grown annually by 22.2%; in 2003-04, bilateral trade increased by a phenomenal 40.8%.<sup>21</sup> In the current year, bilateral trade is estimated at around US\$ 19 billion; however, the balance of trade continues to remain in favour of ASEAN. Compared to other regional groupings, ASEAN is the fifth most important market in the world in terms of Indian exports and fourth in terms of imports. India accounts for less than 2% of ASEAN global trade, while India's trade with ASEAN Members constitutes about 9.5% of India's global trade<sup>22</sup>. Compound annual growth rate (CAGR) of India-ASEAN total trade for the period 1991-2001 has been a robust 11.1%, which is more than the CAGR recorded by India's total trade in the same period; CAGR calculated for the years 2001 to 2004 at 17.05% shows a promising increase that needs to be further accelerated.<sup>23</sup> India expects trade with the block to cross US\$ 19 billion in 2005, as the trend growth rate of bilateral trade continues to be around 48% in the first two quarters of the current fiscal year. Studies show that if India-ASEAN trade maintains a CAGR of 32% in the next three years, bilateral trade would reach US\$ 30 billion.

Services are a sizable and continuously expanding component in ASEAN countries, and a typical ASEAN country generates between 40~50% of its GDP from services. At approximately 50% of ASEAN GDP, the services pie in ASEAN therefore comes to over US\$ 400.4 billion. ASEAN is also an important market of trade in services. Though services constitute respectively 13.74% and 18.15% of ASEANs total combined global exports and imports (as opposed to 34.40% and 29.61% respectively for India), ASEAN's total trade in

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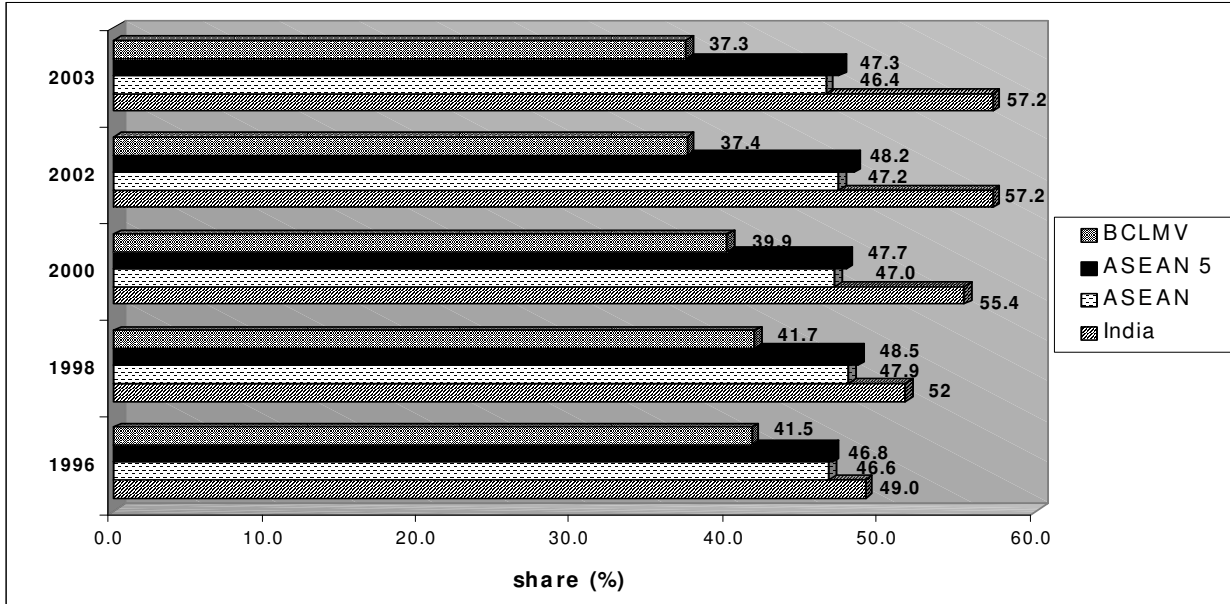
<sup>21</sup> Joint Media Statement of the Fourth AEM-India Consultation, Vientiane 30 September 2005; estimates from the Export Import Data Bank, Ministry of Commerce & Industry, Government of India.

<sup>22</sup> It should be noted here that most of India's trade with ASEAN countries represent trade with ASEAN6.

<sup>23</sup> "Enhancing India-ASEAN Trade", CII Report, January 2005; [www.ciionline.org/Common/92/images/Enhancing%20India%20Asean%20Trade.pdf](http://www.ciionline.org/Common/92/images/Enhancing%20India%20Asean%20Trade.pdf)

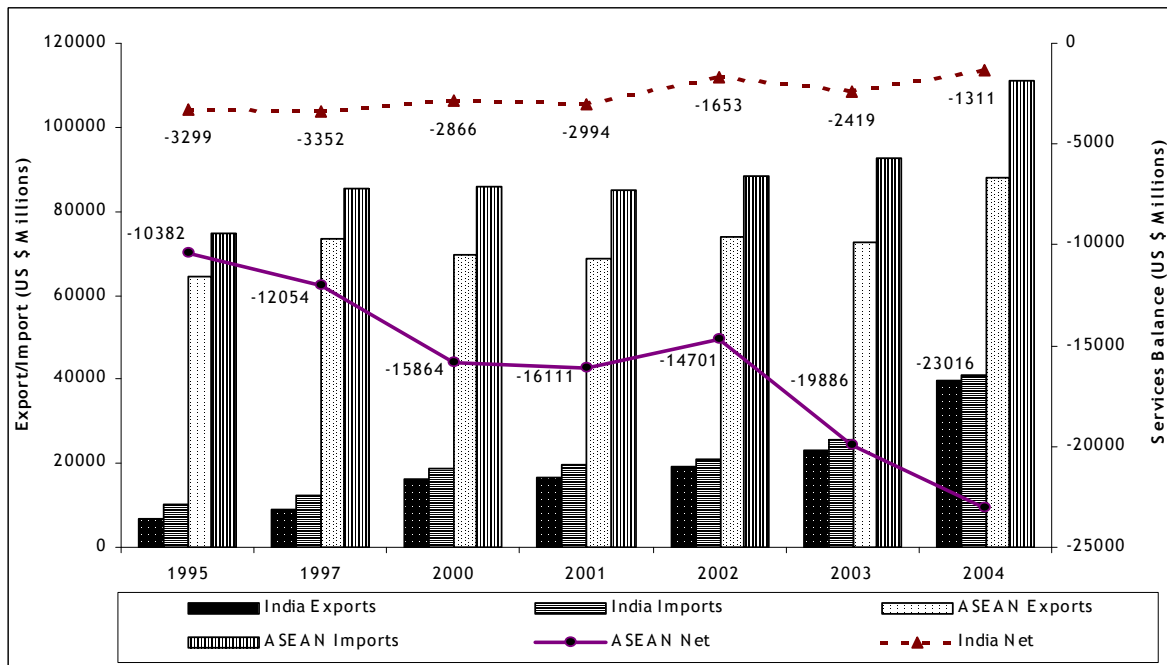
commercially traded services is 2.47 times of India's global trade in services; however, its imports of commercial services are 2.72 times India's imports.

**Chart 2: Share of Services in GDP for India and ASEAN**



Source: ASEAN Statistical Yearbook, 2004, 2003, 2001; RBI Handbook of Statistics, 2004-05

**Chart 3: Global Services Trade Statistics for India and ASEAN**



Source: WTO International Trade Statistics, 2005

Like India, ASEAN is also a net importer of services, with a service trade deficit of over US\$ 23 billion in 2004. Also, ASEANs service imports of US\$ 110.90 billion is over 2.8 times of India's total service exports represent a large potential market for India's service exporters to capture. Coupled with a relative short-supply of cost-efficient manpower (demographic shift) to meet the increasing demand, the region also is increasingly becoming a major demandeur of services, which is reflected in ASEANs rising trade deficits in international trade in services (compared to a positive net merchandise trade balance); see **Chart 3** above.

As discussed earlier, ASEAN through AFAS is working towards eliminating restrictions to trade in services, with a target end date for integration set for 2015. All the AFAS rules are consistent with the international rules of trade as provided by GATS, and intra-ASEAN services trade liberalisation modules are following a GATS-Plus format. However, the ASEAN integration has been proceeding rather slowly, and also the region has a very poor track record at meeting timelines and schedules.<sup>24</sup> The region at present is relatively closed to foreign service providers, despite having a very high merchandise trade to GDP ratio; the services trade openness is about a third of the total trade openness in ASEAN (details in **Table 3** below). This offers an opportunity for the trade partners to optimise gains from the preferential trade agreements, and in particular from the service trade negotiations under the India-ASEAN CECA. The CECA offers an opportunity to enter the ASEAN market preferentially, and reap gains from easier market access until such time the AFAS integration and the service trade liberalisation under the multilateral trade fora, WTO MFNises these gains; hence, we expect these gains to exist for the next eight to ten years. Opportunities exist not only in extending market access of Indian service firms in the ASEAN6 nations where there is significant Indian presence and trade, but also to reach out aggressively to the CLMV countries through the establishment of regional as well as sectoral synergies.

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<sup>24</sup> Walden Bello: Viewpoints - *Is ASEAN irrelevant?*, Philippine Daily Inquirer, December 17, 2004

**Table 3: Trade Openness of the Trade Partners**

<b>Total Trade Openness (goods and services)</b>						
	<b>1995</b>	<b>1997</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>India</b>	23.21	22.96	28.54	27.58	30.82	31.16
<b>ASEAN</b>	126.27	131.44	165.85	160.00	150.40	147.91
<b>ASEAN 5</b>	128.45	133.43	169.66	163.79	153.10	149.63

<b>Services Trade Openness</b>						
	<b>1995</b>	<b>1997</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>India</b>	12.17	12.82	18.76	20.55	18.31	16.01
<b>ASEAN</b>	49.23	56.02	60.20	60.86	57.94	53.36
<b>ASEAN 5</b>	49.19	56.17	60.56	61.31	58.26	53.30

Source: World Development Indicators, 2005

Broadly, at present, prospects for enhancing ASEAN's (particularly ASEAN 5) trade with India exist in the following Services categories: distribution and logistics, tourism and hospitality, IT and telecom, healthcare and financial services. An analysis of India's service trade basket indicates that India's exports to ASEAN in services has concentrated in software and ITeS, technical education, audiovisual, finance and healthcare. ASEAN service firms (especially those from ASEAN5) have both exported a range of services to OECD countries and also invested in a range of sectors like: education, healthcare, professionals and specialists, business support services, construction and engineering (including architecture and surveying), infrastructure development and real estate services, commerce (wholesale and retail trade), transport and tourism, financial services (including pension fund management) and telecommunication services. They are also partnering with developed country service firms into third markets in a range of services. Focus is on to easing existing constraints particularly in temporary business travel and mutual recognition of professional credentials. The CECA provides opportunities for India to also try to get into an arrangement where Indian service providers partner with established ASEAN service firms to service third country markets.

#### **IV India-ASEAN Trade Cooperation – Key Elements for Services Negotiation**

As discussed, service sectors, and in particular the professional services, in most ASEAN countries continue to remain highly protected. Very few countries made significant commitments under GATS. Singapore with the most aggressive GATS commitments among

the ASEAN countries have opened only 7 out of the 12 sectors in which WTO Members decided to take commitments during the Uruguay Round. Under GATS also, for most services where commitments have been taken, cross-border supply (mode 1) is restricted under technical feasibility clause; market access for movement of natural persons (mode 4), except for temporary movement of intra-corporate transferees, has been left 'unbound' by ASEAN country Members. Members have also scheduled many MFN exemptions under the GATS, both for market access and national treatment. Several service sectors also have exemptions including legal services, broadcasting, maritime transport, insurance, banking and other financial services.<sup>25</sup> According to the Schedule of Commitments, these are valid indefinitely but subject to periodic government reassessment. Newly acceding Members to the WTO are however being made to concede greater commitments, in particular for according national treatment to foreign service providers.

Also, in individual Member countries, there are significant barriers to services trade, and for the delivery of a number of services in ASEAN, a commercial presence (mostly through joint ventures) is required, which is further subjected to several restrictions. Also economic needs tests and the citizenship/residency criteria are very assiduously applied for regulating movement of service providers. There are also sector-specific restrictions in key services industries many of which not only restrict foreign firms, but also by protecting incumbents dampen competitive pressures. Governments use their control of major suppliers of products and services under state monopoly. However, domestic regimes in Member countries have undergone unilateral changes recently as per AFAS timelines and commitments and are better than the GATS commitments that exist. Hence, until the AFAS negotiations are completed and the ASEAN regional integration for key service sectors is complete, extra-ASEAN trade partners will have to negotiate bilaterally with individual Member countries for sector-wise market access and movement of professionals. The bilateral and regional agreements in services that the Members have under AFAS or between each other or with other trade partners are generally GATS-plus but less than the current AFAS liberalisation, and certainly does not exceed the existing domestic policy regime in the respective countries. In such a scenario, the India-ASEAN CECA deliberations should aim at

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<sup>25</sup> WTO documents GATS/EL/76, 15 April 1994 and GATS/EL/76/Suppl.1, 28 July 1995; and WTO (2000).

setting out a broad set of AFAS-plus negotiating guidelines on mutual cooperation agreements and a minimum benchmark numerical target for market access in services within the geographical area under the CECA, and not be limited by the existing GATS commitments and tabled revised offers.

Focus during negotiations should therefore be in two areas:

1. Progressive improvements in *Market Access* and ensuring equal *National Treatment* for services suppliers, in a select critical number of service sectors of mutual interest of the trade partners, in all four modes of service supply. Historically, the larger ASEAN Members have put more thrust on mode 3 (with the exception of Philippines and now Vietnam), while India's demonstrated expertise and competitive advantages lie in modes 1 and 4; this signifies complementarities in the interests of the trade partners. While India will have defensive interests in certain sectors with a few Members, there are prospects of offensive opportunities in some other countries, in particular the CLMV nations. This needs to be balanced during negotiations. Also, while the ASEAN region as a whole and India would appear to be broadly competitors in a large range of services, there exists complementarities within individual service sectors and with individual Member countries that need to be carefully optimised.

At present, ASEAN has concluded 4 packages of services commitments through 3 rounds of negotiations since 1 January 1996. These packages were signed by the AEM and provide for details of commitments from each ASEAN country to the others in the following services sectors:

- *Air transport*: sales and marketing of air transport services, computer reservation, aircraft repair and maintenance, etc.
- *Business services*: IT services, accounting, auditing, legal, architecture, engineering, market research, etc.
- *Construction*: construction of commercial buildings, civil engineering, installation works, rental of construction equipments, etc.
- *Financial services*: banking, insurance, securities and broking, financial advisory, consumer finance, etc.



- *Maritime transport*: international passenger and freight transport, storage and warehousing, etc.
- *Telecommunication*: public telephone services, mobile phone services, business networks services, data and message transmission, etc.
- *Tourism*: hotel and lodging services, food serving, tour operator, travel agency, etc.

Because these commitments are GATS-plus, ASEAN services suppliers can expect an increasingly freer trade regime in other services sectors on top of the services sectors listed above.

While the India-ASEAN CECA should aim to incorporate liberalisation in the above sectors, other critical service sectors such as Distribution, Audiovisual, Education and Healthcare services, where India has interests and possibilities of forging synergies should also be considered for fast track liberalisation. In short, specific sectors to focus on during the India-ASEAN CECA negotiations could be: education services, healthcare, telecommunication, audio-visual, tourism, banking and finance, insurance, trading, e-commerce, distribution and logistics, transportation and warehousing, and professional services such as accounting, engineering, legal consultancy and advertising.

2. Measures to help easier movement of professionals (mode 4 movement) - *Mutual Recognition Arrangements (MRAs)* are also the most recent development in the ongoing ASEAN cooperation in trade in services. MRAs enable the qualifications of professional services suppliers to be mutually recognised by signatory member countries, hence facilitating easier flow of professional services providers in ASEAN region. A number of areas that are currently being negotiated and considered for possible conclusion of MRAs under AFAS are: Engineering, Architecture, Accountancy, Surveying, and Tourism. In addition, rules for related aspects such as dispute settlements, institutional mechanism, minimum capital requirements for and types of commercial presence, as well as other areas of cooperation in services should be negotiated under the CECA.

A related facilitating feature needed for easier cross-border movement of professionals within the CECA would be Consular cooperation and visa and work permit facilitation. Reduced restrictions/flexibilities in the number of expatriate workers (including managers) allowed to be employed and on duration of stay, multiple entry visa for business travellers and professionals, relaxed economic needs tests and requirements for getting work permits for professionals (and their spouses in case of longer periods of stay), and provisions of reciprocal visa-on-arrival provisions would help to integrate the Indo-ASEAN region into a single market for services and services providers.

## **V Conclusion**

Our analysis therefore suggests that at least in the medium term (particularly until the conclusion of the AFAS negotiations ending with the service sector integration within ASEAN), 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 (even from among its own Member countries) and has accordingly made limited commitments under GATS; the pillars of negotiation should be both market access and other consular cooperation, including signing of MRAs. The areas where significant mutual interests seem to lie are: finance, education, health, IT & telecommunication, transport (including infrastructure), movement of professionals and other business services. A large number of economies in the region are emerging increasingly skill-scarce in a relative cost-effective sense, and Indian professionals could meet this gap, thereby contributing towards sustaining the overall economic growth in the region. The CECA would also provide opportunities for India to access third country markets through partnering with an established ASEAN service firm in the targeted host country.

However, the downside of the above optimistic projections, particularly those arising out of the liberalised mode 4 access, is that these gains are conditional on India's signing MRAs on qualification and licensing equivalence agreements with the ASEAN Members, which are naturally more time consuming than reducing tariffs and enhancing investment limits in services between the two trade partners; also, India and ASEAN are more in a

substitution and directly competitive mode than complementing each other in a large number of services of interest and relevance. In contrast, immediate and more palpable gains from the CECA seem likely in the areas of energy security and cooperation, and in the broader sense of carving out a larger politico-geographical union with its consequent benefits.

It should also be remembered that compared to some large regional blocks like the EU, and to some extent NAFTA, trade in services and movement of service providers among the ASEAN countries are non-existent; the current level of regional integration in services is strikingly low, given that the policy focus of both ASEAN and the individual Member states have been on merchandise trade liberalisation and inducing foreign-investment-led-technology-transfer. This is a limitation that needs to be worked upon and overcome with conscious efforts by both the trade partners, if the potential gains from India-ASEAN trade liberalisation in services are to be actualised in any significant manner. Any projection on potential gains from market access in services would tend to assume that there would be free movement of service providers within the regional trade agreement block, *ceteris paribus*. The *ceteris paribus* in the context of services trade liberalisation pertains to domestic regulations (DR), which unless conscientiously implemented, may become (and are often used as) *de facto* non-tariff barriers impeding market access rather than facilitating it. Domestic Regulation also remains one of the critical areas of discussion on Services Rules in the run-up to the Hong Kong Ministerial, and discussions are ongoing for feasibility of mandated disciplines in the areas of qualification and licensing procedures and requirements, technical standards, and transparency in the different professional service sectors, in order to facilitate the market access initiatives of Members in services sectors and realisation of gains arising therefrom.

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## Web Resources

<http://www.aseansec.org/>

<http://www.aseansec.org/16659.htm>

<http://www.aseansec.org/17536.htm>

<http://www.aseansec.org/17799.htm>

[http://www.bernama.com.my/bernama/v3/news\\_business.php?id=151050](http://www.bernama.com.my/bernama/v3/news_business.php?id=151050)

<http://www.nasscom.org>

<http://www.wto.org>

## **Annexure 1: India-Singapore CECA – Key Features and Commitments in Services**

The services chapter ensures that service suppliers in India and Singapore are guaranteed access into each other's markets. The key features are highlighted as follows:

- **Market Access:** Both countries may not restrict access into their services market by imposing quantitative restrictions (eg. numerical quotas on services suppliers that are allowed in the market).
- **National Treatment:** Services suppliers will be granted the same treatment as local service suppliers, i.e., no discrimination.
- **Domestic Regulation:** The chapter ensures that domestic regulations governing the provision of services are reasonable, impartial and objective.
- **Mutual Recognition Agreements (MRAs):** The chapter facilitates the freer movement of people. Professional bodies in the accounting and auditing, architecture, medical (doctors), dental and nursing services sectors in both countries will negotiate agreements, within a year of the signing of CECA, recognising each other's education and professional qualifications. This means that upon the completion of these mutual recognition agreements, Indian and Singaporean professionals from these five professions could be able to practice in Singapore and India respectively. Professional bodies for services sectors not listed above would also be encouraged to enter into negotiations for MRAs.

There are additional disciplines pertaining to Telecommunication Services and Financial Services in their respective Annexes to the Services Chapter.

Generally, the benefits of the CECA will extend to the citizens, permanent residents, local companies as well as foreign MNCs that are constituted or otherwise organised in India or Singapore. Companies wishing to supply audio-visual, educational, financial and telecommunication services, through commercial presence in India or Singapore, would have to meet ownership or control criteria in order to benefit from the CECA.

Both countries have committed to liberalise various services sectors beyond its WTO commitments. The sectors which Singapore gets preferential access include business

services, construction and related engineering services, financial services, telecommunication services, tourism and travel related services and transport services. India would be able to enjoy preferential treatment for sectors such as business services, distribution services, education services, environmental services and transportation services.

- For Financial Services, Singapore owned or controlled financial institutions have been given greater privileges to access the Indian market. In banking, DBS, UOB and OCBC can each set up a wholly owned subsidiary (WOS) in India to enjoy treatment on par with Indian banks in branching, places of operations and prudential requirements. Alternatively, should they choose to set up as branches, they have been allocated a separate quota of 15 branches (for all 3 banks) over 4 years, over and above the quota for all foreign banks.

For asset management, Singapore owned or controlled fund managers have the additional privilege of offering Indian investors mutual funds and collective investment schemes (CIS) listed on the Singapore Exchange (SGX) as well as exchange traded funds (ETF). These instruments offered by our asset managers are free from the restriction that they must only invest in entities which have a stake in Indian companies. India has similarly lifted this limitation for India owned or controlled fund managers. Both Singapore and India owned or controlled fund managers can also invest an additional US\$250m in equities and instruments listed on the SGX, including mutual funds, CIS and ETFs. This is in addition to the US\$1 billion cap that all asset managers can invest abroad.

Indian banks and financial institutions can take advantage of CECA to expand their activities in Singapore. To this end, Indian banks, that satisfy Singapore's admission criteria, will be given Wholesale Bank licences and up to 3 bank licences with Qualifying Full Banks privileges. In addition, India insurers and capital market intermediaries that satisfy our admission criteria will have open access to set up in Singapore.

- For Telecommunication Services, India will bind its foreign equity limit from 25% to 49% for most services including basic, cellular and long distance services and 74% for internet and infrastructure services. India will also ensure that

telecommunication providers from Singapore are treated fairly, transparently, and allowed to obtain access to the necessary public infrastructure in order to offer their services, thereby creating a more level playing field in India for our Singapore's telecom providers. On its part, Singapore has made binding commitments for telecommunication services such as Basic Telecommunication Services (facilities-based), Mobile Services, and Value-Added Network (VAN) Services.

### **Air Services**

India and Singapore have reaffirmed their rights and obligations under previous agreements and recognise the importance of air connectivity to support the expansion of tourism, trade and investments. Both countries will review and enhance further air services linkages through the bilateral Air Services Agreement, in future.

### **Movement of Natural Persons**

The cross-border movement of natural persons plays a central role in initiating and supporting trade and investments in goods and services. This chapter enhances trade and investment flows by facilitating easier temporary entry for 4 categories of business persons from India and Singapore:

- Business Visitors who are holders of five year multiple journey visa will be permitted to enter and engage in business activities for a period of up to 2 months, which upon request, may be further extended by up to 1 month.
- Short-term service suppliers will be granted temporary entry to service their contracts for an initial period of up to 90 days in the first instance. Professionals employed in 127 specific occupations will be allowed entry and stay for up to 1 year or the duration of contract, whichever is less.
- Intra-corporate transferees (i.e. managers, executives and specialists within organisations) will be permitted to stay and work in India and Singapore for an initial period of up to 2 years or the period of the contract, whichever is less. The period of stay may be extended for period of up to 3 years at a time for a total term not exceeding 8 years.

The Movement of Natural Persons chapter does not apply to measures regarding citizenship, residence or employment on a permanent basis. It also does not apply to immigration measures as long as these immigration measures do not nullify or impair the commitments made by either country.

The chapter will grant Singaporean and Indian Citizens and Permanent Residents guaranteed entry and stay in each other's country as business visitors, short-term service suppliers, professionals and intra-corporate transferees.

Singapore companies will have certainty when they choose to deploy Singapore staff to help manage their Indian operations. Skilled and qualified professionals and service suppliers from Singapore would also gain easier access to the vast Indian market. Similarly, this would also apply to Indian companies when they deploy Indian staff to manage their operations in Singapore.

With freer movement of business persons between countries, bilateral trade and investment flows should be significantly enhanced. Hence, companies from both countries can leverage on the chapter to drive greater economic integration between India and Singapore.

The services commitments made by each country can be found in the Annexes to the Services Chapter. On specific sectoral agreement, India has taken commitments in nine sectors that include professional services (including accounting, taxation (advisory only), architecture, engineering, medical and dental, services by nursing, midwives and veterinary services, computer and related services, R&D services, real estate services (for consultancy), rental/leasing services without operators, other business services such as advertising services, management consulting services, technical testing and analysis services, services incidental to fishing, mining, manufacturing; energy distribution, placement and supply of services of personnel, maintenance and repair of equipment, photographic services, packaging services, telecommunication and audiovisual services, construction and related engineering services, financial services, health, tourism, recreational, cultural and sporting services, maritime transport services and some sectors of air transport services.

While Singapore has taken commitments in dozen service sectors, it has offered partial/full commitments in all the services sectors in which India has offered



commitments. Such sectors include legal (for consultancy) services, under other business services areas such as market research and public opinion polling, services incidental to agriculture, forestry, security consultations, alarm monitoring, unarmed guard services, telephone answering services, retail trading and franchising under distribution services, education services, environment and health.

Source: Summarised from the Executive Summary, Press Information Kit and Services Annexes of the India-Singapore CECA document.

## Appendix Tables

**Table 1: Direction of ASEAN Merchandise Trade**

(US \$ Millions)

	1995	1997	2000	2001	2002	2003
Intra-ASEAN	123781	149973	166084.9	149159.8	158714.2	174541.9
<i>% of total</i>	25.19	27.33	28.15	27.71	28.69	28.37
Extra ASEAN	491470.5	548668.8	589912.4	538324.5	553252.6	615169.1
<i>% of total</i>	79.88	78.53	78.03	78.30	77.71	77.90
Total ASEAN	615251.5	698641.8	755997.3	687484.3	711966.8	789711

Source: ASEAN Statistical Yearbook, 2004

**Table 2: Index of Revealed Comparative Advantage**

YEAR	INDIA				ASEAN			
	Transport	Travel	Other Services	All Commercial Services	Transport	Travel	Other Services	All Commercial Services
1995	1.14	1.19	0.85	<b>0.92</b>	0.8	1.18	1.05	<b>0.85</b>
1996	1.17	1.22	0.80	<b>0.90</b>	0.76	1.08	1.08	<b>0.89</b>
1997	0.92	1.02	1.06	<b>1.03</b>	0.74	1.02	1.12	<b>0.86</b>
1998	0.68	0.81	1.26	<b>1.26</b>	1.01	0.97	0.98	<b>0.76</b>
1999	0.56	0.67	1.46	<b>1.39</b>	1.14	1.13	0.8	<b>0.76</b>
2000	0.45	0.57	1.56	<b>1.54</b>	1.19	1.18	0.73	<b>0.74</b>
2001	0.39	0.48	1.66	<b>1.62</b>	1.17	1.27	0.69	<b>0.77</b>
2002	0.49	0.42	1.64	<b>1.56</b>	1.23	1.26	0.69	<b>0.78</b>
2003	-	-	-	-	1.3	1.21	0.78	<b>0.70</b>

Source: Based on data from Balance of Payments Statistics, 2004, IMF

Notes: 1. The Figures in the table are Balassa's Revealed Comparative Advantage (RCA) Index, computed as:

$R_{ih} = (X_{ih}/X_{it}) / (X_{wh}/X_{wt})$ , where

$R_{ih}$  = Balassa's Index of RCA

$X_{ih}$  = Country i's export of product h

$X_{it}$  = total export of country I

$X_{wh}$  = world export of product h

$X_{wt}$  = total world exports

A country is said to have revealed comparative advantage (disadvantage) in product h if  $R_{ih} > (<1)$

2. Other services being Communications, Construction, Insurance, Financial Services, computer and Information, Royalties and Licence fees, Other Business Services, Personal, cultural and recreational Government.

**Table 3: ASEAN Free Trade Agreements and Regional Trade Agreements**

<b>ASEAN Country</b>	<b>WTO / APEC Member</b>	<b>FTA/RTA Concluded</b>	<b>FTA/RTA Under Negotiation</b>	<b>Future FTA/RTA Planned</b>
<b>ASEAN</b>			ASEAN-China FTA ASEAN-India FTA ASEAN-Australia & New Zealand FTA ASEAN-Korea FTA	ASEAN-Japan FTA ASEAN-US Trade and Investment Framework Agreement
<b>Brunei Darussalam</b>	Yes / Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States (2002)	
<b>Cambodia</b>	Yes / No	ASEAN Free Trade Agreement (AFTA)		
<b>Indonesia</b>	Yes / Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States	Japan
<b>Lao PDR</b>	No / No	ASEAN Free Trade Agreement (AFTA)		
<b>Malaysia</b>	Yes / Yes	ASEAN Free Trade Agreement (AFTA) Australia New Zealand	Trade and Investment Framework Agreement (TIFA) with the United States Japan (6 rounds)	Korea Pakistan India - Comprehensive Economic Cooperation Agreement (CECA)
<b>Myanmar</b>	Yes / No	ASEAN Free Trade Agreement (AFTA)		
<b>Philippines</b>	Yes / Yes	ASEAN Free Trade Agreement (AFTA)	Trade and Investment Framework Agreement (TIFA) with the United States Japan (3 rounds)	Korea Taiwan
<b>Singapore</b>	Yes / Yes	ASEAN Free Trade Agreement (AFTA) Australia Japan European Free Trade Association (Switzerland, Iceland, Liechtenstein and Norway) New Zealand USA Jordan India Korea	Pacific Three (Singapore/New Zealand/Chile – 2 rounds) Canada (6 rounds) India (5 rounds) Bahrain Kuwait UAE Mexico (6 rounds) Sri Lanka (1 round) Panama Peru Qatar ( 1 round) Egypt	Iran
<b>Thailand</b>	Yes / Yes	ASEAN Free Trade Agreement (AFTA) Australia Bahrain China (Preferential Trade Agreement on Agriculture, Oct-03) India (effective Mar-04) New Zealand	USA Japan (Closer Economic Partnership) Chile Papua New Guinea Peru	European Free Trade Association (Switzerland, Iceland, Liechtenstein and Norway) Czech Republic Croatia Korea Canada

				Hong Kong Mexico (feasibility stage) South Africa (feasibility stage)
<b>Vietnam</b>	No / Yes	ASEAN Free Trade Agreement (AFTA)	Sri Lanka	

Source: [http://www.us-asean.org/ASEAN/FTA\\_Matrix.doc](http://www.us-asean.org/ASEAN/FTA_Matrix.doc), updated with additional information and media reports as available from [www.bilaterals.org](http://www.bilaterals.org)

Note: The above matrix does not include other types of regional cooperation such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) - Groups together Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand, and hence may not be comprehensive.

#### **Table 4: India's Current Engagements in RTAs**

(Source: [http://www.commerce.nic.in/india\\_rta\\_main.htm](http://www.commerce.nic.in/india_rta_main.htm))

- Framework Agreement on Comprehensive Economic Co-operation between the Association of South East Asian Nations (ASEAN) and India.
- BIMST-EC FTA
- Framework Agreement for establishing Free Trade between India and Thailand
- India-Sri Lanka Bilateral Free Trade Area and the Proposal for Comprehensive Economic Partnership Agreement
- Agreement on South Asian Free Trade Area (SAFTA)
- India-SACU (Southern African Customs Union) Framework Agreement
- Joint Study Group (JSG) with Mauritius
- India-GCC Framework Agreement
- Joint Study Group with China
- Joint Study Group between India and Republic of Korea, and India and Japan
- Brief on India-Egypt PTA
- Bangkok Agreement
- Global System of Trade Preferences (GSTP)