

BRIEFING PAPER

CUTS Centre for International
Trade, Economics & Environment
CUTS-CITEE



MGR 1/2005

India, SAARC, ASEAN, BIMSTEC – Commonalities, Differences and Future Cooperation

The foremost objective of forming any Free Trade Area (FTA) or a Preferential Trade Agreement (PTA) is to strengthen and enhance economic, trade and investment cooperation among the parties with a view to create trade in the region and not lead to diversion. But it has been generally observed that the establishment of any FTA or a PTA with preferential tariff leads to both 'trade creation' and 'trade diversion.' The issue to examine is whether 'trade creation' is more than 'trade diversion.' This paper discusses the commonalities, differences on the areas of economic cooperation and investment and possible future cooperation among South Asia Free Trade Agreement (SAFTA), Association of South East Asian Nations (ASEAN) Free Trade Agreement (AFTA), Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC) and India. Even though South Asian Association for Regional Cooperation (SAARC), ASEAN and BIMSTEC are the regional/sub-regional economic cooperation groupings in South and Southeast Asia, each has a distinct purpose, background and rationale.

Brief History

ASEAN

Although ASEAN was originally conceived as a regional economic and trade cooperation forum for non-communist Southeast Asia, it had a much larger purpose. It must be recalled that in the early 1960s (ASEAN was founded in 1967) Southeast Asia was passing through a difficult period – some countries were facing serious problems of communist insurgency said to have inspiration and support from China; there were bilateral tensions between, for example, Malaysia and Indonesia and some other countries; the cold war had sucked most of the region in its vortex; and the economic condition of the region was vulnerable and fragile. ASEAN was conceived as a regional mechanism for overcoming these common challenges and as an instrument of Southeast Asia's vision for a region, which could develop and preserve its independence through collective effort and cooperation. This was possibly also seen as a policy response to China's then lengthening shadows over South-East Asia.

AFTA

However, most of the Southeast Asian region is now an FTA. Accounting for over 96 percent of all ASEAN trade, the first six signatories of the Common Effective Preferential Tariff scheme for the ASEAN Free Trade Area (AFTA) have reduced their tariffs on intra-regional trade to no more than five percent for almost all the products in the Inclusions List or removed them all together. The AFTA was established in January 1992 to eliminate tariff barriers among the South-East Asian countries with a view to integrating the ASEAN economies into a single production base and creating a regional market of 500 million people. The Agreement on the Common Effective Preferential Tariff (CEPT) scheme for the AFTA requires that tariff rates levied on a wide range of products traded within the region be reduced to no more than five percent. Quantitative restrictions and other non-tariff barriers (NTBs) are to be eliminated. Although originally scheduled to be realised by 2008, the target of an FTA in ASEAN continuously moved forward.

FTA is expected to become a reality through the following:

- establishment of CEPT
- harmonisation of standards among ASEAN countries
- recognition of reciprocal tests and certifications
- removal of barriers from foreign investments
- consultations on macroeconomic issue
- formation of rules for fair competition
- promotion of venture capital

SAARC and SAFTA

SAARC, on the other hand, was a hurriedly conceived product of misplaced hope. It was, some believe, a flawed and an *ad-hoc* concept in which very little thought or prior preparation seems to have gone in. It was, from the very beginning, totally government-centric and government managed. The civil society was neither involved nor consulted; the people, purported to be the main beneficiaries, were not directly involved in the making and are yet to benefit from this regional cooperation. India-Pakistan tensions have all but derailed the SAARC process. The tendency of the smaller countries to see and use SAARC as an instrument of their foreign policy with a view to enhancing their perceived bargaining strength *vis-à-vis* India only compounded its difficulties and prospects of meaningful cooperation.

Therefore, it is not surprising that since its establishment in 1985, SAARC has very little to show by way of concrete achievement or progress. India, on her part, has preferred to effectively bypass this South Asian grouping as her need for a much bigger economic canvas and larger space could not be met by a manifestly moribund SAARC alone. While SAARC was conceived only as an economic cooperation forum, it was not surprising that it got bogged down in the intractable political climate of South Asia. The proposal to reconvene the 13th SAARC Summit soon has rekindled the hopes of SAFTA coming into force as scheduled on January 01, 2006. It is a sad commentary on the regional economic cooperation that although SAARC has been in existence for about 20 years, the intra-regional trade among the member states is still languishing below five percent when compared to their total global trade. It is widely

believed that all the seven states of the region will benefit immensely in the long run from the economic benefits of SAFTA.

BIMSTEC

BIMSTEC, unlike ASEAN and SAARC, is not mired in political tensions. It was implicitly conceived by Thailand and India in the early 1990s as a concomitant of Thailand's look-west and India's look-east policy. And by the late 1990s, both Thailand and India were looking for new markets and a new sub-regional cooperation framework in the Bay of Bengal economic space, which both countries shared and wanted to explore. What is noteworthy is that Thailand and India have had good and trouble-free bilateral relations and both were conscious of the limitations of their respective regional groupings in order to meet all the long-term aspirations. It did not take India long to respond to the Thai initiative and BIMSTEC was formed in December 1997 with Sri Lanka, Myanmar and Bangladesh also joining this overarching sub-regional grouping for economic and commercial cooperation.

Recently, Nepal and Bhutan were also admitted to BIMSTEC, which has since been re-christened as the Bay of Bengal Initiative for sub-regional cooperation. BIMSTEC's agenda is entirely economic and commercial, although the new members, Bangladesh and Nepal, are trying to politicise economic issues in the garb of special and differential treatment for the so-called least developed country members of the group. Time bound negotiations are underway for a Framework Agreement to create an FTA in this sub-region and also far reaching cooperation arrangements in six identified sectors, namely, trade and investment, technology, transport and communication, energy, tourism and fisheries for which a lead country in each area has been designated to coordinate.

India and ASEAN Cooperation

Arguably, the economic dimension of India's look-east policy was premised on this logic. ASEAN was seen by India as a rapidly growing region with enormous potential. It could become a major source of capital, relevant technology, market and a partner in areas of respective core competencies (IT, bio-tech and the other knowledge areas and from India, tourism and some services sectors from ASEAN). ASEAN, too, views India as a major emerging market and a source of knowledge, education and HRD related resources. In the 1990s, both India and ASEAN had economic and political imperatives, which made them look at each other as partners.

No other country, not even China, has enjoyed such a swift evolution of institutional trade links with ASEAN. Today, ASEAN sees India along with China as the two wings of its trading aircraft propelling it to greater heights in tandem and in partnership with both these nations. Its common future agenda includes the creation of a Free Trade and Investment Area, harmonised policies on trade and investments, common tourism promotional and marketing efforts, cooperation in third countries through joint ventures etc. and harmonisation and integration of financial, service and social sector policies. An eventual objective is to harmonise and coordinate positions on major international economic issues in the context of WTO, UN and the Bretton Woods Institutions. While the Asian Economic Community or the East Asian Economic Community may be some distance away, India is firmly on the road to integration with ASEAN and the Asia-Pacific economies. Bilaterally too, India is set to conclude Comprehensive Economic Cooperation Agreements (CECAs) with Singapore, Thailand and eventually, with ASEAN at the macro level.

India-ASEAN FTA

The first ASEAN-India Summit was held in 2002, at Phnom Penh, the capital of Cambodia. This led to the second Summit in

2003, which was held in Bali, Indonesia. At this Summit, three important documents were signed, two of which related to trade (the third was cooperation agreement to combat international terrorism). The trade related document aimed to create:

- A Framework Agreement on Comprehensive Economic Cooperation leading to the creation of an FTA by the year 2011; and
- India's accession to the Treaty of Amity and Cooperation in Southeast Asia.

As per the Framework Agreement, the first phase of the FTA was expected to begin by April 01, 2005. However, during the negotiations between the members, it was proposed to drop the early harvest and go in for a full-fledged FTA by 2009. This was planned in the wake of rejection by ASEAN members of the general approach of determining Rules of Origin (RoO), one of the most contentious issues in any trade agreement that India follows for its various preferential trade agreements with other countries.

Currently, ASEAN and India are working on the provision of RoO and the Operational Certification Procedures for the ASEAN-India FTA. India is set to finalise new criteria for determining RoO (the criteria that determine the country of origin of a product) for the Indo-ASEAN Free Trade Agreement by July 15, 2005.

ASEAN and its Relevance for SAARC

It would be preposterous and technically unacceptable to set a role-model for South Asian cooperation in the light of ASEAN, or for that matter, any such regional body, because of inherent divergencies – economic, strategic and geopolitical – between the two blocs. However, there are many common variables between these two regional trade blocs, which SAARC can profitably and gainfully apply in its attempt to strengthen regional cooperation. Effectiveness of any such prescription in this regard is obviously dependent upon its acceptability by political leadership – its vision, commitment and goodwill.

ASEAN Experience — A Guide for SAARC!

The core economic areas like trade, joint venture and industrialisation have been included in SAARC Integrated Programme of Action (IPA). ASEAN experiences in these fields, like ASEAN Industrial Projects (AIP), ASEAN Industrial Complementation Programme (AIC) and the ASEAN Industrial Joint Venture will be of relevance for South Asia in:

- Implementing SAARC Preferential Trade Agreement (SAPTA), SAARC can be profitably guided by ASEAN practices and conventions like ASEAN Preferential Trading Arrangements and the decision to establish an AFTA.
- Playing a supportive role to trade, investment and industrial promotion, money, banking, tax and custom matters and insurance in SAARC countries can be coordinated and recast as in ASEAN.
- SAARC countries have opted for market economy and the private sector is expected to play a catalytic role for economic cooperation to be meaningful. The SAARC Chamber of Commerce & Industry (SAARC-CCI) can benefit from the experiences of ASEAN Chamber of Commerce & Industry (ASEAN-CCI) in promoting private sector cooperation among member countries. ASEAN-CCI's experiences of development of the concept of sub-regional cooperation zone will be of relevance for SAARC-CCI, particularly since the former is looked upon as a model of economic development through the assimilation of differences in the political canvas, ethnic division and cultural schism.

India's Trade Relations with BIMSTEC Countries

India has a free trade agreement with Sri Lanka under India Sri Lanka Free Trade Agreement (ILFTA). In addition, India has

also given preferential treatment for a large number of commodities to Bangladesh (being a least developed country) under SAPTA. India has given preferential treatment to a large number of agricultural commodities and rough wood imported from Myanmar. The establishment of PTA/FTA among BIMSTEC will lead to India's preferential tariff arrangement (i) with Thailand for all commodities, and (ii) with Bangladesh and Myanmar for select commodities. By studying the trade relations between India and other members of BIMSTEC, two issues are clear: (i) India has export competitiveness in a large number of commodities as compared to other BIMSTEC countries and (ii) India has the capacity for penetrating the markets of other BIMSTEC members.

BIMSTEC, AFTA & SAFTA

A Comparative Study

BIMSTEC is sub-regional and a much smaller and a more modest arrangement. It, too, seeks to create a common Free Trade and Investment Area with coordinated policies. The other sectors identified for cooperation and common action include tourism, shipping, civil aviation, communications, fisheries and energy. BIMSTEC is seen as providing early harvest and 'incrementality' to member countries that are also bound by their respective commitments to SAARC and ASEAN. It is also supposed to provide a fillip to bilateral cooperation arrangements, for example, between India and Myanmar and between India and Sri Lanka respectively. A separate set of rules

and procedures on issues like RoO, negative lists and exceptions would need to be worked out.

SAARC, as pointed out above, will need to redefine itself if it has to play a relevant role in this rapidly evolving search for new regional economic arrangements. Instead of getting mired in the vexed and intractable issues of SAPTA and SAFTA, SAARC should first focus on infrastructural linkages among member countries so that a vested interest in interdependence and sustained economic cooperation could be created. SAARC needs to start with realisable sub-regional cooperation, for example, among Bangladesh, Bhutan, Nepal, Myanmar and India; among Sri Lanka, Maldives and India; and among India, Pakistan and Afghanistan etc.

Thereafter, at the sub-regional level, energy and water based projects could be considered. If formal trade arrangements are a bottleneck, the already considerable informal trade could be seen as the second best option. Happily, informal trade even between India and Pakistan is in excess of US\$3bn per annum and growing. Most Favoured Nation (MFN), in a sense, is a non-issue seen in this context. Finally, SAARC should endeavour to maximise its advantages *vis-à-vis* its external partners. For example, SAARC could start with taking full advantage of the EU's cumulative RoO concessions and Generalised System of Preferences (GSP) concessions offered by other developed countries.

Box 1 provides an analyse of the commonalities and differences in SAFTA, AFTA and BIMSTEC from the perspective of Economic Cooperation and Investment.

Table 1: India's Trade with ASEAN, SAARC and BIMSTEC (in US\$)

S. No.	Name of the countries	1995			2003		
		Exports	Imports	Total trade Volume	Exports	Imports	Total trade Volume
	India	31698567168	36592062464	68290629632	63028788942	77201328533	140230117475
	SAARC	1715278886	250720604	1965999490	4096505064	660709805	4757214869
	India's trade with SAARC as a percentage of its total trade	5.4	0.68	2.87	6.49	0.85	3.39
1.	BHUTAN	17136134	34665424	51801558	88380100	51742221	140122320
2.	BANGLADESH	1045868928	85671504	1131540432	1719167882	76688109	1795855991
3.	MALDIVES	15648016	189428	15837444	41759054	369312	42128366
4.	NEPAL	159533040	49034968	208568008	660985474	282591767	943577241
5.	PAKISTAN	76585312	45014688	121600000	283379531	56950927	340330458
6.	SRI LANKA	400507456	36144592	436652048	1302833023	192367469	1495200492
	BIMSTEC	2124602694	536804520	2661407214	4681249809	1609168453	6290418262
	India's trade with BIMSTEC as a percentage of its total trade	6.7	1.46	3.8	7.4	2.08	4.48
1.	BANGLADESH	1045868928	85671504	1131540432	1719167882	76688109	1795855991
2.	NEPAL	159533040	49034968	208568008	660985474	282591767	943577241
3.	BHUTAN	17136134	34665424	51801558	88380100	51742221	140122320
4.	SRI LANKA	400507456	36144592	436652048	1302833023	192367469	1495200492
5.	THAILAND	471473376	169299488	640772864	821359656	601682124	1423041780
6.	MYANMAR	30083760	161988544	192072304	88523674	404096763	492620437
	ASEAN	2730219669	2578780395	5309000064	5749472746	7343643865	13093116611
	India's trade with ASEAN as a percentage of its total trade	8.61	7.04	7.77	9.12	9.51	9.33
1.	BURNEI DARUSSALAM	7220536	36402	7256938	4523247	331974	4855221
2.	CAMBODIA	2131440	340713	247253	18362149	271464	18633613
3.	INDONESIA	660398976	460089344	1120488320	1113231490	2096544317	3209775807
4.	LAOS PDR	310293	N.A	310293	427117	126661	553778
5.	MALAYSIA	391950688	896818560	1288769248	881674261	2021937131	2903611392
6.	MYANMAR	30083760	161988544	192072304	88523674	404096763	492620437
7.	PHILIPPINES	143783664	21411580	36195244	317533940	120625920	438159860
8.	SINGAPORE	898879360	853339712	1752219072	2098498591	2060279737	4158778328
9.	THAILAND	471473376	169299488	640772864	821359656	601682124	1423041780
10.	VIETNAM	123987576	15456052	139443628	405338621	37747774	443086395

Source: UN Statistical Division

Box 1: An Analysis of Agreements Among SAFTA, AFTA and BIMSTEC

S.No.	Agreements	SAFTA	AFTA	BIMSTEC
1.	Areas of Economic Cooperation	<p>A. To provide special treatment to least developed countries and expect others to provide them with preferential tariffs during the process of trade liberalisation programmes.</p> <p>B. To adopt trade facilitation and other measures, namely, harmonisation of standards, simplification of custom clearance procedures, simplification of banking procedures for import financing, transit facilities for intra-SAARC trade, development of communication systems and transport infrastructure and simplification of procedures for business visas.</p>	<p>A. To strengthen regional cooperation in the areas of development, production and promotion of agricultural products for ensuring food security and upgrading information exchanges.</p> <p>B. To increase cooperation in research and development, technology transfer, tourism promotion, and HRD.</p> <p>C. The Agreement on the CEPT Scheme for the ASEAN FTA requires that tariff rates levied on a wide range of products traded within the region be reduced to no more than five percent.</p>	<p>A. To strengthen cooperation in technology, transportation and communication, energy, tourism and fisheries sectors.</p> <p>B. To agree to enhance trade facilitation in the areas of mutual recognition arrangements, customs cooperation, trade and finance, e-commerce, business visa and travel facilitation.</p>
2.	Investment	Removal of barriers for intra-SAARC investments.	To increase cooperation in the field of capital markets, i.e., to encourage and facilitate free movement of capital and other financial resources including further liberalisation in the use of ASEAN currencies in trade and investments.	<p>A. To strengthen cooperation in investment, facilitate investment and improve transparency of investment rules and regulations.</p> <p>B. To promote investment by liberalising the investment regime.</p>

RTA – The Fashion of the Day!

One of the defining characteristics of the current international economic architecture is the rapid growth and consolidation of Regional Trading Arrangements (RTAs). The economic space of major economic powers is increasingly becoming inadequate to meet their growing requirements for markets and resources. At present, on a rough reckoning, about two third of international commerce takes place under RTAs, of this over 50 percent is under Preferential Trading Arrangements (PTAs).

It is ironical that even though all major trading countries openly advocate and are committed to free international trade under the WTO, they appear to be engaged in a relentless pursuit of enlarging their protected economic space and regional groupings. EU is expanding eastwards towards Central and Eastern Europe and its present enlarged membership of 25 is expected to grow to 35 by 2007. EU is also enlarging its partnership arrangements in North Africa, West Asia, South America and in the ACP (Africa, Caribbean, Pacific) countries. The United States, after the establishment of NAFTA (North American Free Trade Area), is now pursuing the creation of a hemispheric FTA from Alaska to Antarctica. In the Asia-Pacific, there is a proposal to set up an Asian Economic Community comprising Southeast-Asia, East Asia including China, Japan and India.

A variant of this is the East Asian Economic Community. Similar moves to establish and expand regional groupings are underway in Africa and South America. As far as India is concerned, it too is in search of a secure, predictable and large economic space. SAARC, accounting for less than three percent of India's external trade and less than five percent of intra-regional trade, quite clearly, is a very narrow and inadequate economic space for a large and growing Indian economy. India needs to look towards the Asia-Pacific, the Gulf, Central Asia, China and Russia. For India – indeed, as for the other countries – RTAs should provide 'incrementality' and value addition.

No country, in today's context, can afford to be an exclusive part of one trading bloc; what is needed is mutually exclusive

and independent membership of multiple arrangements, even multi-layered arrangements, to meet and secure the future economic needs of each country. In this effort, deepening and expansion of economic links with traditional partners is an acknowledged imperative. For example, over 60 percent of India's present economic exposure is to the European Union (30 percent), the United States (20 percent) and Japan (10 percent). India will need to preserve, consolidate and expand this even as it explores mutually beneficial relations with other regional groupings and continue to advocate open and free international trade in the new millennium round of multilateral trade negotiations for a new trading regime.

Conclusion

For a country like India, ASEAN, BIMSTEC and SAARC are three distinct opportunities. The challenge for India is to optimise the benefits out of each association. The three should not be seen as overlapping but rather as mutually exclusive, even if they are interlinked. What is needed is the creation of an awareness of the new opportunities as a result of membership/association of each. India's ultimate objective should be to use these building blocks of regional/sub-regional economic cooperation for the creation of an expanded Asian Economic Community, which alone will ultimately provide this country with the economic space it needs in the long run.

In this context, India and China as the two largest and the fastest growing economies of the region must be seen to be complementary rather than competitive. Besides, additional complementarities should be identified and developed. ASEAN, BIMSTEC and SAARC, with a combined population of nearly 2 billion and a combined gross domestic product (GDP), which is greater than that of EU, could emerge as the region's strength in the rapidly evolving and highly complex and competitive Asian and global economic architecture. If China were to be made a part of this equation, the potential and opportunities would increase manifold. That is why many believe this century to belong to the Asia-Pacific region of which India could be a major player.

© CUTS-CITEE 2005. This Briefing Paper is produced by CUTS-CITEE with support of Swiss Agency for Development and Cooperation (SDC) under the project "South-South Economic Cooperation: Exploring Mekong-Ganga Relationship" to inform, educate and provoke debate on issues of regional economic cooperation. Readers are encouraged to quote or reproduce material from this paper for their own use, but as the copyright holder, CUTS-CITEE requests due acknowledgement and a copy of the publication.

This Briefing Paper is researched and written by A N Ram, Former Secretary, Ministry of External Affairs and Ambassador to EU for CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India. Ph: 91.141.228 2821, Fx: 91.141.228 2485, E-mail: citee@cuts.org, Web Site: www.CUTS-CITEE.org. Printed by Jaipur Printers Pvt. Ltd., M. I. Road, Jaipur 302 001, India.

