India's Regional Trade Agreements With Southeast Asia

An Analysis

Regional trade agreements (RTAs) have proliferated in the last few decades in various forms all over the world and now number in the hundreds. In Asia, many came up or were reinforced after the 1997–98 financial crisis. India has signed a number of RTAs (28 as of now) with various Southeast Asian countries and with ASEAN as a whole. Another important development has been India's admission into the Regional Economic Comprehensive Partnership known as ASEAN+6, intended to facilitate Pan-Asian and Asia–Pacific integration, although it poses a risk to Indian industry faced with growing Chinese competition and market penetration.

SAHELI BOSE

INTRODUCTION: THE IMPORTANCE OF REGIONAL TRADE AGREEMENTS

Regional Trade Agreements (RTAs) are an important feature of international trade today. The proliferation of RTAs around the world has been particularly evident from the 1990s onwards (Jo-Ann Crawford and Sam Laird, *Regional Trade Agreements and the WTO*, Centre for Research in Economic Development and International Trade, University of Nottingham Research Paper 00/3, 2000, p2, online at https://www.nottingham.ac.uk). RTAs are formal agreements on reciprocal and preferential basis between two or more partner countries to liberalise and facilitate trade between them. The basic aim is to eliminate/reduce tariffs in relation to trade in goods or eliminate/reduce restrictions to trade in services. RTAs are not specifically limited to a single geographical region and may go beyond a region in terms of being subregional or even interregional. Accordingly, RTAs may take a variety of forms like free trade agreements (FTAs), preferential trade agreements (PTAs) and customs unions or may further integrate to higher levels in the form of common markets or economic unions.

In the multilateral trading system, RTAs are considered discriminatory in nature as they grant member-states preferential status in trading. This is against the non-discriminatory principle of the World Trade Organization (WTO), which prohibits members from discriminating among trading members—RTAs clearly stand in violation of this principle. Hence, there was a need for an exception to channelize RTAs and this may be traced to Article 24 of the General Agreement on Tariffs and Trade (GATT) formed in 1948. This was necessary to bring in the countries of the erstwhile European Economic Community as signatories of GATT. Although the community was formalised with an agreement in 1957 between Belgium, the Netherlands, Luxembourg, France, Italy and West Germany, the process of setting up this group had already begun at the time of GATT. Since the preferential tariff system of this group was a violation of the most favoured nation principle of GATT, an exception had to be made (Manoj Pant, "Regional Trading Agreements and Developing Countries: Understanding the Phenomena", *International Studies*, vol47, no2, April 2010, p189). In 1979 as part of GATT's Tokyo Round, the "enabling clause" was adopted, resulting in derogations to the most favoured nation (non-discrimination) treatment in favour of developing countries. The clause provided for a permanent waiver to the most favoured nation clause to allow preference-giving countries to grant preferential tariff treatment under their respective general systems of preference schemes (United Nations Conference on Trade and Development, *About the General System of Preference*, 2015, online at http://unctad.org). Finally in 1995,

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when the WTO replaced GATT, Article V of the General Agreement on Trade in Services provided the exception for the formation of RTAs.

There are numerous reasons why countries join regional trade agreements. The traditional theory of gain is based on the proposition that the removal of trade barriers allows consumers and producers to purchase from the cheapest and most competitive source of supply and this in turn increases the efficiency and welfare of the countries involved in the regional bloc. This view however was challenged by Jacob Viner (*The Customs Union Issue*, New York: Carnegie Endowment for International Peace, 1950) who introduced the concepts of "trade creation" and "trade diversion" and stated that the net effect of trade liberalisation among countries on a regional basis is not ambiguously positive. Trade creation takes place when due to the formation of an RTA, a member switches from an inefficient domestic producer and imports from an efficient producer within the region. Trade diversion takes place when because of an RTA, a member shifts from importing low-cost production from the rest of the world to a higher-cost producer within members of the region. According to Viner (*ibid*), the welfare effect of an RTA depends on which of these two effects dominates. Although there have been extensive debates among international trade theorists about the welfare implications of RTAs, these remain beyond the scope of this paper. Other reasons for countries joining RTAs include political and strategic motivations, increased bargaining power in multilateral fora, along with increasing frustration with multilateral trading bodies like the WTO. As of April 2015, the WTO had received 612 notifications of RTAs (counting goods, services and accessions separately) of which 406 were in force. These figures correspond to 449 physical RTAs (counting goods, services and accessions together) of which 262 are currently in force (WTO, *Regional Trade Agreements*, 2015, online at https://www.wto.org). The proliferation of RTAs around over the world has made them an interesting area of study in the field of international trade and their dynamics are closely watched.

ASIA'S EXPERIENCE WITH REGIONAL TRADE AGREEMENTS

As the formation of RTAs intensified globally, Asia too joined in the process. Over the last two decades, the fear of isolation and deprivation in terms of benefits of preferential provisions of trade under RTAs, made Asian countries embark on the process of regionalism. The proliferation has been mostly in the form of free trade agreements although the coverage of goods, investments and services varies across the continent. While trade in goods dominates the scenario, services are covered only by a few agreements in a meaningful way. Some of the reasons that facilitated the spread of FTAs in Asia are discussed briefly hereafter. First, is the deepening of market driven economic integration, which requires further liberalisation and harmonisation of policies and rules in trade and foreign direct investment (FDI), including the protection of investment and intellectual property rights. Asian policymakers believe that FTAs support expanding trade and FDI activity through the elimination of crossborder impediments. Second, the success of the European Union and the North American Free Trade Agreement motivated Asian nations to adopt FTAs—the "bandwagon effect" as many internationalist theorists call it. Third, the 1997–98 financial crisis made it clear that Asian economies needed to work together in the area of trade and investment to sustain growth patterns by addressing common challenges. Fourth, the long and futile negotiations in multilateral trading bodies like the WTO, especially with regard to the rift between North and South countries over subsidies on agriculture, intellectual property rights and services, encouraged Asian countries to consider FTAs as an alternative (Masahiro Kawai and Ganeshan Wignaraja, *Asian FTAs: Trends, Prospects and Challenges*, Asian Development Bank Economic Working Paper 226, Manila, 2010, pp5–6).

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FTAs are easier to negotiate as they have a smaller membership and members can agree on terms of trade more effectively. Another stimulus for growing Asian regionalism has been the emergence of the continent as a centre of final demand. The large populous economies of India and China have huge market potential. For many products, from mobiles to motorcars to jet planes, the biggest market happens to be in Asia as indicated by high interregional trade. Further, regional economic integration has helped countries exploit the vast synergies that have developed between the economic structures of Asian economies. For example, the growing scarcity of labour in Japan and South Korea is complemented by labour abundance in South and Southeast Asian countries. Similarly, some Asian states specialise in manufacturing and hardware capability while others have vast competence in software (Nagesh Kumar, "The Relevance of Broader Regional Economic Integration in Asia and a Roadmap" in Nagesh Kumar, K Kesavapany and Yao Chaocheng, *Asia's New Regionalism and Global Role: Agenda for the East Asia Summit*, Research and Information System for Developing Countries, New Delhi and Institute of Southeast Asian Studies, Singapore, 2008, p23). Large market access, open policies of investment, achieving deeper economic commitment, along with political and security considerations have stimulated the formation of FTAs in Asia. Ratified FTAs more than tripled from 36 in 2002 to 109 as of January 2013. Another 148 FTAs are at various stages of development, bringing the total to 257. Today, global FTA activity involves Asia more than any other region (Asian Development Bank, *Regional Cooperation and Integration in a Changing World*, 2013, p16, online at https://www.adb.org).

Different subregions of Asia "are progressing with regionalism on their own and in a distinctly different manner" (Amita Batra, "Asian Economic Integration and Subregionalism: A Case Study of BIMSTEC", *International Studies*, vol47, no1, 2010, p3). In this regard, the formation of the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement in 1992 has been the most successful. While the South Asian Free Trade Agreement concluded under the aegis of the South Asian Association for Regional Cooperation became operational in 2006, intraregional trade remains low at five per cent of the gross domestic product of South Asian nations (World Bank, *End Poverty in South Asia*, 2015, online at http://blogs.worldbank.org). Continuous political tension among members and the low coverage of goods in the agreement have stalled its progress.

West Asia through the Gulf Cooperation Council (GCC) has taken forward its integration process and a customs union was operationalised on 1 January 2015. The common market formed in 2008, was integrated further allowing full equality among GCC citizens to work in the government and private sector, in social insurance and retirement coverage, real estate ownership, capital movement, access to education, health and other social services in all member states ("GCC Customs Union fully Operational", *The Peninsula*, Qatar, 3 January 2015, online at http://thepeninsulaqatar.com). The Eurasian Economic Community of the Central Asian states was terminated on 1 January 2015 and the Eurasian Economic Union launched. While membership negotiations with

Tajikistan are still ongoing, all other members have joined the new union or are in the process of doing so. As different subregions of Asia progress with their own regionalism, inter-subregional trade agreements have become increasingly prominent. In this trend, the subregions of South, Southeast and East Asia have taken the lead (Batra, 2010, *ibid*, p5).

RTAS BETWEEN INDIA AND SOUTHEAST ASIA

In South Asia, India has been the main focus of RTA activity (Jo-Ann Crawford and Roberto V Fiorentino, *The Changing Landscape of Regional Trade Agreements*, World Trade Organisation Discussion Paper 8, Geneva, Switzerland, 2005, p13, online at https://www.wto.org). India's experience of RTAs with Southeast Asian countries began with the signing of the Bangkok Agreement in 1975, renamed the Asia–Pacific Trade Agreement in 2005. This was the first regional agreement in Asia (Saman Kelegama, "Bangkok Agreement and BIMSTEC: Crawling Regional Economic Groupings in Asia", *Journal of Asian Economics*, vol12, no1, 2001, p106) and although it became a preferential trade agreement in the late 1970s, it has remained restricted to trade in goods only, following a positive list and product-by-product approach.

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With the end of the Cold War in the early 1990s, India's relations with Southeast Asia improved. Breaking the ideological barrier, the world began integrating economically paving the way for globalisation. With the collapse of its valued economic partner the Soviet Union and impacted by the severe financial crisis as well as the forces of globalisation, India had to respond to the changing situation. It therefore embarked on economic policy reforms from 1991 onwards (Rajiv Sikri, "India's Look East Policy", *Asia Pacific Review*, vol16, no1, 2009, pp131–45). Substantive and wide-ranging programmes of economic reform were undertaken to restructure and liberalise the economy.

Looking at the remarkable economic performance of the Asian Tigers in India's near neighbourhood, special attention was paid to ASEAN through the "Look East" policy. This sent a clear message that "the region would no longer be overlooked, as it had been by India's previous foreign economic policy" (Dong Zhang, *India Looks East: Strategies and Impacts*, AusAid Working Paper, 2006, p15, online at http://www.ausaid.gov.au). The Look East policy aimed at establishing strategic links with as many individual countries as possible to forge closer political links with ASEAN and develop strong economic bonds in the region (GVC Naidu, "India and Southeast Asia: An Analysis of the Look East Policy" in PV Rao (Ed), *India and ASEAN: Partners at Summit*, New Delhi: KW Publications, 2008). Since the Southeast Asian economies were making remarkable economic progress and already experiencing the fruits of liberalisation, this policy signalled New Delhi's willingness to tap the opportunities these countries had to offer. For ASEAN in turn, India's size, population, educated middle class, technical capability and ancient linkages provided reasonable grounds for acceptance into its fold. Further, the tensions created by the volatile situation in the South China Sea over the Spratly Islands, the Taiwan Strait and China's overwhelming presence, convinced ASEAN of a need for a paradigm shift in its relations with India. Thus, mutual need affected the convergence (Tridib Chakraborti, "Disparate Priorities: Explaining the Penumbra of India's Look East Policy" in K Raja Reddy (Ed), *India–ASEAN: Foreign Policy Dimensions for the Twenty-First Century*, New Delhi: New Century, 2005, pp53–4).

Out of 28 FTAs that India is currently processing, seven are with Southeast Asian countries and operate on bilateral, subregional and regional levels. Bilaterally, Singapore was the first country to enter into a comprehensive economic pact with India and the landmark agreement was the first it had with a South Asian economy. A Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore was mooted at a meeting between Prime Minister Atal Bihari Vajpayee and his counterpart Goh Chok Tong in April 2002. A joint study group was formulated to study the potential benefits and it recommended that the CECA should be an integrated package of agreements, that is an FTA plus agreement (Rahul Sen, "The India–Singapore Comprehensive Economic Cooperation Agreement: A Good Beginning towards an Enduring Economic Relationship", *ASEAN Economic Bulletin*, vol20, no2, 2003, pp179–83). After

13 rounds of formal negotiations, the CECA was signed on 29 June 2005, by Indian Prime Minister Manmohan Singh and his counterpart Lee Hsein Loong and has been operational since 1 August 2005. The agreement marks the first time that Singapore has included taxation agreement discussions in the process. The features of CECA among others include free trade areas in goods, services and investments, a double taxation avoidance agreement, improved market access and fair and impartial domestic regulations, mutual recognition agreement to avoid duplicate testing and certification of products, movement of persons, education and tourism.

Singapore at present is India's tenth largest trade partner and the latter has a positive balance of trade with it. After the conclusion of the CECA, bilateral trade expanded from $6.65 billion in 2004–05 to $25.2 billion in 2011–12 but declined to $19.27 billion in 2013–14 and stood at $17.1 billion in 2014–15 (Ministry of External Affairs, Government of India, *India–Singapore Relations*, 2015, online at http://www.mea.gov.in). With the operationalisation of the CECA, the flow of investment from Singapore increased. Prior to it, most investment had been directed through Mauritius, but once the agreement came into force, investment began to come directly from Singapore (Rahul Garg, *India–Singapore CECA: an Evaluation*, Centre for Civil Society Working Paper 234, New Delhi, 2009, p25). Singapore was the largest source of foreign direct investment into India in 2013–14—overtaking Mauritius—with the $5.98 billion accounting for about 25 per cent of inflow. However, at present Mauritius has regained top position accounting for 36 per cent of the total FDI inflow into India (Department of Industrial Policy and Promotion, Ministry of Commerce and Industries, Government of India, *Factsheet on Foreign Direct Investment from April 2000 to January 2015*, online at http://dipp.nic.in).

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Outward Indian FDI to Singapore has also increased from $351 million in 2004–05 to $37.4 billion in April 2015, making Singapore one of the top destinations for Indian investment (*ibid*). Moreover, with about four thousand companies, India forms the fourth largest foreign contingent in Singapore. Companies like Tata Consultancy, Satyam, Infosys and Wipro operate in Singapore with the aim of engaging in a wider network covering most of Southeast and East Asia. Nine Indian banks—Bank of India, Indian Overseas Bank, UCO Bank, Indian Bank, Axis Bank and State Bank of India, ICICI Bank, Exim Bank and Bank of Baroda operate from Singapore. It is also an important service importer destination. Singapore occupies thirteenth place for India in its tourist arrivals list and there has been a growth in numbers from 17,950 in 1981 to 119,022 in 2011 (Market Research Division Ministry of Tourism, Government of India, *India Tourism Statistics 2011*, online at http://tourism.gov.in). Under the CECA, the free movement of businessmen, professionals and workers (Mode 4) has been given a boost, as Singapore has erased visa restrictions for a list of 127 professional categories, while India from 2010 has added the provisions of visa on arrival for Singaporeans. While Mode 4 represents only one per cent of India's service trade to Singapore, its remittances are an important source of revenue.

India also concluded a CECA with Malaysia in 2010 and the agreement came into force on 1 July 2011. Under it, both countries will progressively reduce/eliminate tariffs on their respective agricultural and industrial products in a phased manner. Apart from the trade in goods and services under the FTA, the agreement provides a framework to facilitate crossborder investment between the two sides through commitments on national treatment, most favoured nation treatment as well as protection of investors and investments.

Malaysia is India's third largest ASEAN trading partner and India is Malaysia's largest trading partner from among the countries of the South excluding ASEAN and China. Bilateral trade increased from $0.6 billion in 1992 to $13.84 billion in 2014 (Ministry of External Affairs, Government of India, *India–Malaysia Relations*, 2015, online at http://www.mea.gov.in). Malaysia is currently the nineteenth largest investor in India with FDI inflows of $732 million in the last fifteen years (*ibid*). These figures based on Government of India statistics, however do not include the substantial flow of Malaysian investment into India through Mauritius. If this is included then the total investment stands at around seven billion dollars. Most of the investment is in roads and highways, telecommunications and oil and gas projects. The largest external presence of Malaysian construction companies is in India. They have completed 71 construction projects worth $3.26 billion, while 15 projects worth $1.86 billion are under various stages of implementation. Indian cumulative investment into Malaysia grew from 1980 to 2014 and stands at $2.31 billion (*ibid*). Several

Indian companies including Ballarpur, Larsen and Toubro, Reliance and Wipro have a presence in Malaysia.

While India also signed the framework for an FTA with Thailand in 2003, it has yet to be implemented. With the initiative taken by Prime Minister Atal Bihari Vajpayee and his counterpart Thaksin Shinawatra in 2001, a joint working group was established to study the feasibility of an FTA, which after three rounds of talks was signed in 2003. However, negotiations stand deadlocked due to "Thai phobia"—an apprehension on the part of Indian traders that cheap Thai products would quickly infiltrate the Indian market damaging local business. Moreover, in the Thai service sector, a large number of services like accounting, architecture, engineering and legal are reserved for nationals while other professionals come under a restrictive visa policy. India has also been pushing Thailand to sign a mutual recognition agreement, which would do away with the need for Indian professionals to secure additional Thai qualifications before being allowed to work there under Mode 4 movement.

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Negotiations for a CECA with Indonesia began in 2011. India's bilateral trade with Indonesia has increased from $6.9 billion in 2007–08 to $20 billion in 2013–14 (Ministry of External Affairs, Government of India, *India–Indonesia Relations*, 2015, online at http://www.mea.gov.in). India is the largest buyer of crude palm oil from Indonesia and imports coal, hydrocarbons reserves, minerals, pulp and paper and rubber as well (*ibid*). India exports animal feed, commercial vehicles, cotton, maize, oil seeds, pharmaceuticals in bulk and formulations, plastics, refined petroleum products, steel products and telecommunications equipment to Indonesia (*ibid*). While India has made considerable investment in Indonesia's automotive, banking, infrastructure, mining machinery, power, steel and textiles sectors, in comparison Indonesia's investment in India has been limited.

To engage on a regional level, negotiations for an India–ASEAN FTA started in 2003 with 23 rounds stretching over a six-year period. The agreement signed in Bangkok on 13 August 2009 came into effect from January 2010 but includes trade in goods only. Expressing the importance of the India–ASEAN FTA, Sanjaya Baru ("Getting to know India's other Neighbours", *The Hindu*, New Delhi, 19 November 2012, online at http://www.hindu.com) stated that Prime Minister Manmohan Singh had been personally interested in furthering relations with ASEAN and after returning to office in 2009, gave "explicit instructions" to Commerce and Industries Minister Anand Sharma that the signing of the agreement was to be his first priority. The FTA in goods is based on a negative list approach with 489 items. The phasing out of tariffs under the two "normal tracks" was to be completed by December 2016 and the gradual phasing out of tariffs under the three "sensitive tracks" by 2019. India has allowed only 35 per cent value addition as against its twin criteria of change in tariff headings and 40 per cent value addition followed in other FTAs (Amita Batra, *India–ASEAN FTA: A Critique*, Institute of Peace and Conflict Studies Issue Brief 116, New Delhi, September 2009, p1, online at http://www.ipcs.org). India and ASEAN aimed to increase bilateral trade to $100 billion by 2015 and it stood at $76.58 billion in 2013–14 (Ministry of External Affairs, Government of India, *Special Address by Secretary (East) at the ASEAN–India Eminent Persons Lecture by Ambassador Evan Garcia*, 17 July 2015, online at http://mea.gov.in). Both sides also planned to lift import tariffs on more than 80 per cent of traded products by 2016 ("India Signs Free Trade Agreement in Services, Investments with ASEAN", *The Economic Times*, 9 September 2014, online at http://articles.economictimes.indiatimes.com). Under the CECA, India signed an agreement for the liberalisation of trade in services and investments in 2014, which was to come into force by the end of 2015. The accord is aimed at allowing a freer movement of professionals and encouraging investment.

Interactions between other Asian countries and India translate into a subregional forum through the common membership of the Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation (BIMSTEC). This platform serves as a means to connect geographically proximate countries and acts as a basis for greater regional integration. Formed in 1997, BIMSTEC comprises of Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal. It was initiated as an alternate forum for accelerating South Asian integration and comprises all members of South Asia minus Pakistan. In the first ministerial meeting held in Phuket, Thailand in February 2004 the framework for a BIMSTEC Free Trade Arrangement in goods was signed. While negotiations started on schedule in 2004 and were finalised after 18 rounds in 2009, the FTA has still not been implemented. It was given impetus at the third summit meeting held in Myanmar in 2014, in terms of the decision to set up a permanent secretariat in Dhaka. In the summit declaration, leaders directed the BIMSTEC Trade Negotiating Committee to expedite work for the conclusion of an agreement on trade in goods by the end of 2014 and to continue efforts for the early finalisation of an agreement on services and investments (Ministry of External Affairs, Government of India, *Brief on BIMSTEC*, 2014, online at http://www.mea.gov.in). Intra-BIMSTEC trade however remains low at five per cent. A lack of regular meetings, proper political will and mutual disputes between members has slowed the pace of the bloc.

FROM LOOK EAST TO ACT EAST: PRIORITIES TO BE ADDRESSED

The two terms of the United Progressive Alliance government led by Manmohan Singh (2004–09 and 2009–14) were instrumental in carrying forward the goals of the Look East policy. The prime minister stressed the importance of India–ASEAN relations and often used phrases such as it was "blossoming", showing "results on the ground" and had reached an "exciting stage" ("Look East Policy is showing Results says Manmohan Singh", *The Hindu*, New Delhi, 20 November 2007 and "India–ASEAN Relations at Exciting Stage: PM", *The Hindu*, New Delhi, 21 December 2012, online at http://www.hindu.com). This enthusiastic legacy has been carried forward by the present Narendra Modi government, which came to power with an overwhelming majority in May 2014. Within a few months, the new government's strategy of connecting with Southeast Asian countries was evidenced by high-level visits. Foreign Minister Sushma Swaraj's visit to Myanmar, Singapore and Vietnam, Modi's to Myanmar and President Pranab Mukherjee's visit to Vietnam signified the importance of India's extended neighbourhood to its foreign policy. Under the new government, the "Look East" policy has morphed into an "Act East" policy, aimed to pitch India with

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a more vigorous approach at bilateral, subregional and regional levels. As India pursues its RTA strategy with Southeast Asian nations, it is important to address some priorities for a vibrant engagement. It should be remembered that this group of countries is among the foremost liberalised economies of the world. Singapore was ranked as the second best competitive country after Switzerland according to the World Economic Forum's *Global Competitiveness Report 2014–15* (online at http://www.weforum.org). Most Southeast Asian countries except for Cambodia and Myanmar are placed among the top hundred countries of the world in terms of ease of doing business. India is ranked at 134, well below China, Russia and some African countries, showing that a greater effort must be made by the government (World Bank, *Doing Business: Ranking Economies*, 2015, online at http://www.doingbusiness.org).

Further, the much-hyped India–ASEAN FTA has been criticised by some because of the extra edge India has given to ASEAN members. The Indian agricultural community has regularly voiced concerns on the outcome of the FTA. Through this India entered another FTA process called the Regional Economic Comprehensive Partnership, which brings together the ten ASEAN members (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) along with current FTA partners (China, Japan, Republic of Korea, India, Australia and New Zealand) in terms of evolving a group of ASEAN+6. It was expected to conclude by the end of 2015. The implementation of the partnership would broaden and deepen current economic engagement achieved through existing ASEAN+1 FTAs. India however needs to prepare itself to face challenges in terms of China being a co-participant and the necessary tariff concessions this would entail.

Due to its strategic geographical advantage, the hinge point of all connectivity projects between India and Southeast Asia is through India's northeast region. There is a widely circulated belief that deepening connectivity and trade between India and Southeast Asia at all levels will help bridge the gap to India's northeast states. India is at present collaborating with some Southeast Asian nations to develop connectivity projects such as the Kaladan multimodal project, the trilateral highway with Myanmar and Thailand, the Tiddim–Rhi–Falam roadway, the Delhi–Hanoi railway corridor project, etc. Although these projects are of great import, conditions need to improve in the region. India's northeast as a whole is not well connected with the mainland and accessibility is only through the "chicken neck" corridor. Its geographical setting on hilly terrain adds a natural impediment to the deficiency of transport infrastructure. While roadways could serve as a convenient mode of communication, there is a huge deficit in terms of spread and quality of roadways. Out of the total 100,087.08 kilometres of national highways in the country, the northeast region's share is only 12,691.91 kilometres (Ministry of Road Transport and Highways, Government of India, *State-wise Length of National Highways in India*, 2017, online at http://morth.nic.in). The region is also deficient in surfaced roadways, which make transportation easier and are more durable, while unsurfaced roads are subject to the vagaries of weather phenomena. The dismal picture of surfaced roadways is reflected by the statistics for Assam and Arunachal Pradesh. In Assam the total of roadways, including national and state highways and others is 313,621 kilometres, while surfaced roadways are just 57,641 kilometres. Arunachal Pradesh has the second highest stretch of roadways in the northeast with 24,469 kilometres but surfaced roadways are just 14,237 kilometres (Ministry of Road Transport and Highways, Government of India, *Basic Road Statistics of India, 2013–14 and 2014–15*, 2016, online at http://morth.nic.in). Moreover, connectivity in terms of railways is also poor and even some capitals in the region are not connected, creating problems in the transportation of goods and people.

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In terms of airways, India's northeast has 12 functional and 12 non-functional airports (FICCI and PwC, *Gateway to ASEAN: India's Northeastern Frontier*, 2014, online at http://ficci.in and https://www.pwc.in). In addition, the high cost of air transport prevents many from availing this facility as much as roads and railways. The region is crisscrossed by many rivers and inland water transport is a viable and cost effective mode of transportation. National waterway number two, on the Brahmaputra River from the Bangladesh border to Sadiya town in Assam and is of immense importance. Other important waterways such as number six and sixteen in Assam are in the developmental stage (Inland Waterways Authority of India, Government of India, *Annual Report 2015–16*, online at http://iwai.nic.in). Apart from transportation bottlenecks, the lack of heavy industry along with insurgency and ethnic conflict contribute to the region being an economically laggard part of India.

However, with attention now being paid to the region, the situation is expected to change for the better. The Special Accelerated Road Development Programme in the Northeast has been launched by the Government of India. This is a comprehensive programme with a number of projects like the up-gradation of national highways connecting state capitals and providing connectivity to all 88 district headquarter towns of the region by at least two-laned roads. The programme also aims to improve roads of strategic importance in border areas and improve connectivity to neighbouring countries (Ministry of Development of Northeast Region, Government of India, *Brief Status on SARDP-NE*, 2017, online at http://www.mdoner.gov.in). Rail links are also being given equal attention. Many areas in Arunachal Pradesh and Meghalaya have now been put on the railway map of India, thereby reducing the connectively bottleneck with the rest of the country. New projects of railway extension into the region have already started and under the *Ude Desh Ka Aam Naagrik* scheme, the northeast should become well-connected with the mainland.

CONCLUSION

India's policy of pursuing RTAs with Southeast Asia, whether at the bilateral, subregional or regional level should be seen as an opportunity and certain positive results have been already achieved. The signing of the India–ASEAN FTA in services and investments is a step in the right direction. It will help Indian information and technology and its enabled industries penetrate further in the region of Southeast Asia and Oceania. Moreover, as Myanmar undergoes an internal process of reform, it too is seeking to facilitate integration processes at all levels. The Burmese government's decision to float the Kyat, which had been pegged since 1977, is a significant move (WTO, *Trade Policy Review: Myanmar*, 2014, online at https://www.wto.org). The flotation has bridged the discrepancy between the official rate and unofficial rate of exchange in the black market.

Granting autonomy to the Central Bank of Myanmar in deciding monetary policies, which had been hitherto controlled by the government, will increase efficiency in dealing with economic affairs. A new Foreign Investment Law has been passed to attract FDI. The new law seeks to clarify investment norms with proper guidelines for international investors. It also gives a detailed list of restricted sectors where investment is not allowed. The new law provides for setting up special economic zones, three of which are planned in Thilawa, Kyaukphyu and Dawei. Until the new law was passed, foreigners could only rent property on short-term basis, with leases typically limited to one year. However, now foreign investors may lease land for a period of up to 50 years, which could be renewed for further two 10-year periods (*ibid*). Other changes like the stepping down of the military government, freeing of the press and media from government control and relief from international sanctions have facilitated the expansion of business. As part of the India–Myanmar–Thailand trilateral highway becomes operational, it will add a new dimension to connectivity between India and Southeast Asia. The highway is expected to reduce travel time considerably.

In conclusion it is hoped that as India draws closer to Southeast Asia, other South Asian neighbours also deepen their level of cooperation with India, whereby the latter could can act as a window and a doorway to Southeast Asia for them and this in turn could bring nearer the ideal of Pan Asian integration.