

# THE ASEAN–INDIA FREE TRADE AREA AND DESIGN OF FUTURE REGIONAL TRADING ARCHITECTURE IN THE ASIA–PACIFIC REGION

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## *Abstract*

*This paper discusses the role of the ASEAN–India Free Trade Area (AIFTA) in designing future regional trading architecture (RTA). To date, the negotiations on future regional trading architecture in the Asia–Pacific region have split into two blocs: the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). By considering some essential factors, it would be to the advantage of AIFTA members to focus on negotiations under the RCEP rather than the TPP. There are at least three ways in which the AIFTA could play a significant role in the:”) course of future RTA in the Asia–Pacific region: strengthening unity of the RCEP; redressing power imbalances among RCEP participating countries; and becoming a hub for other regions.*

*Keywords: ASEAN, India, AIFTA, RCEP, TPP*

## **INTRODUCTION**

Economic cooperation between ASEAN and India entered a new phase after the ASEAN–India Free Trade Area (AIFTA) came into force on 1 January 2010. It was in 1994 that India announced its ‘look east’ policy, that is, to look east to ASEAN, but it was another two decades before any formal engagement. The AIFTA is expected to be a turning point in enabling closer economic cooperation and to provide mutual benefits for the parties involved.

Further, it is also envisaged that the AIFTA would play an important role in

designing future regional trading architecture in the Asia–Pacific region. The position of India and ASEAN countries, such as Indonesia, must be considered and taken into account as newly emerging economic. Kliman and Fontaine (2012) mentioned that India and Indonesia, together with two other countries (Brazil and Turkey), are ‘the Global Swing States’ that are expected to influence the course of current and future international order. These four economies will have a great stake in international arrangements that facilitate the growth of trade and investment. The Asian Development Bank (ADB) has also made an analysis

that projects that India and six other Asian countries (China, Indonesia, Japan, Korea, Thailand and Malaysia) will be engines of economic growth in Asia under the Asian Century scenario (ADB, 2011).

Economically, the importance of a regional trading architecture that includes a wider group of participating economies and greater liberalisation is associated with the need to improve productive efficiency and to minimise transaction costs (Viner, 1950). To date, debate on regional trading architecture has focused on two blocs; the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). Several scholars have proposed other terms for an increased trade liberalisation in the Asia-Pacific region, such as Free Trade Area of the Asia-Pacific (FTAAP). Whatever the name, the most fundamental thing is the substance of the liberalisation and the potentially positive effects for the parties involved.

Considering the background sketched above, this paper discusses the following important question: what is the role of the AIFTA in designing future regional trading architecture?

The analysis will start by looking at the AIFTA's achievements so far. Then, the discussion will turn to an examination of the potential role of the AIFTA in Asia. The analysis in this section will mainly be with reference to the ADB predictions for the Asian Century. The next part will address future regional trading architecture. The last part of this paper will focus on the role the AIFTA might have in supporting future regional trading architecture.

## **ASEAN-INDIA FREE TRADE AREA**

### **The AIFTA and its achievements**

The AIFTA has been implemented for a few years. In many cases of the implementation of an FTA, it is hard to assess their effects over such a short period. However, simply looking at the movement of various macroeconomic indicators since the AIFTA began operating will allow a preliminary assessment to be made of the effects of this cooperation.

The business sector has responded positively to the implementation of the AIFTA since 2010, which is indicated by the significant increase in total trade

between ASEAN and India. In 2005, the share of total trade between ASEAN and India was only 1.9 per cent with a trade value of USD23 billion. After that, the share of trade gradually increased to USD61.3 billion and USD70 billion in 2010 and 2011 respectively; equivalent to 3.1 per cent and 2.9 per cent of the total ASEAN trade. Even though these values are still far below the figures for ASEAN trade with several other leading partners, such as China, Japan and the USA, it shows that the AIFTA to some extent has increased trade between the parties involved.

Before the implementation of the AIFTA, the major reason for the slow pace of the increase in ASEAN–India trade was presumed to be the high trade protection imposed by ASEAN and by India. Using Indonesia as an example, Thee (2011) clearly states that India has not become an important trading

partner for Indonesia (the most populous country in ASEAN) because India’s markets are more protected than are Indonesia’s. Currently, under the AIFTA, most trade protection, particularly tariffs, has been removed. However, this has not done enough to ensure greater trade and its concomitant cooperation between ASEAN and India. Of the FTAs already in operation between ASEAN and other nations in the region (see Table 1), the AIFTA is regarded as the least successful in liberalising trade. On India’s part, its effort to liberalise trade under the AIFTA is even lower, 74.3 per cent only. This rate is far lower than the ASEAN–China FTA (92 per cent), the ASEAN–Korea FTA (91.6 per cent) and the ASEAN–Japan FTA (89.2 per cent). On the other hand, the ASEAN–ANZ FTA (Australia and New Zealand) is the most liberalised of the FTAs in the region (94.6 per cent)

**Table 1.** Liberalisation by countries that have an FTA agreement with ASEAN

| ASEAN       | ASEAN–<br>Korea<br>(%) | ASEAN–<br>China<br>(%) | ASEAN–<br>ANZ<br>(%) | ASEAN–<br>India<br>(%) | ASEAN–<br>Japan<br>(%) |
|-------------|------------------------|------------------------|----------------------|------------------------|------------------------|
| Singapore   | 100                    | 100                    | 100                  | 100                    | 100                    |
| Brunei      | 97.8                   | 97.9                   | 98.5                 | 82.6                   | 96.4                   |
| Malaysia    | 93.5                   | 93.7                   | 95.5                 | 79.6                   | 92.1                   |
| Thailand    | 93.7                   | 88.3                   | 98.8                 | 74.3                   | 96.9                   |
| Indonesia   | 90.3                   | 89.0                   | 93.4                 | 50.4                   | 88.7                   |
| Philippines | 97.9                   | 86.5                   | 94.8                 | 75.8                   | 96.0                   |
| Vietnam     | 84.3                   | n.a.                   | 90.9                 | 69.7                   | 84.7                   |
| Cambodia    | 85.5                   | 86.7                   | 86.2                 | 84.1                   | 76.0                   |
| Lao PDR     | 85.4                   | 96.4                   | 90.7                 | 77.5                   | 84.2                   |
| Myanmar     | 87.5                   | 86.9                   | 86.1                 | 73.6                   | 79.4                   |
|             |                        |                        |                      |                        |                        |
| Korea       | 92.2                   |                        |                      |                        |                        |
| China       |                        | 94.6                   |                      |                        |                        |
| ANZ         |                        |                        | 100                  |                        |                        |
| India       |                        |                        |                      | 74.3                   |                        |
| Japan       |                        |                        |                      |                        | 86.3                   |
| Average     | 91.6                   | 92.0                   | 94.6                 | 76.5                   | 89.2                   |

Source: Arata Kuno, 2011.

Note: Data on Myanmar under the ASEAN–China FTA are missing for HS01–HS08

A detailed mapping by Kuno shows that there are some products that have been liberalised above 95 per cent. These include products categorised with the following codes: HS26, mineral product ores, slag and ash (97.4 per cent); HS31, fertilisers (96.6 per cent); HS45, cork and cork articles (97.1 per cent); HS47, wood pulp or pulp of other fibrous cellulosic material and recovered (waste and scrap) paper or paperboard (98.4 per cent); HS51, wool, fine or coarse animal hair; horsehair, yarn and woven fabric (95.3 per cent); HS75, nickel and articles thereof (98.1 per cent); HS81, other base metals, cermets, and articles thereof (99.6 per cent); and HS86, railway or tramway locomotives, rolling stock and parts thereof, railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds (96.9 per cent). Meanwhile, products with tariff reductions of less than 60 per cent are HS22, beverages, spirits and vinegar (38 per cent); HS57, carpets and other textile floor coverings (57.6 per cent); HS64, footwear, gaiters and the like, and parts of such articles (58.2 per cent); and HS87, vehicles other than railway or tramway rolling stock,

and parts and accessories thereof (41.6 per cent)

### **The AIFTA, a new driver for an Asian resurgence**

The ADB (2011) predicts that Asia has a bright future. By 2050, Asia is predicted to account for more than half of the world's trade, investment and GDP and, because of this, the ADB has named it the Asian Century. The ADB's report states that the engines of the Asian Century are the Asia-7 economies: China, India, Indonesia, Japan, Korea, Thailand and Malaysia (ADB, 2011). Those countries that are not members of ASEAN but are referred to by the ADB as engines of the Asian Century are ASEAN's FTA partners. Therefore, ASEAN and its FTA partners in the Asian region are to play significant roles in realising the Asian Century by 2050 and further increasing the role of ASEAN in the global economy.

Further, the ADB (2011) argues that the drivers of Asian growth in the future would be determined by three fundamental factors: the emerging Asian lower middle classes; climate change; and the communications revolution. These drivers are not

mutually exclusive: they are complementary and could be mutually reinforcing. This is in contrast with the key developments of the past where the growth in Asia has been driven by three classic drivers; technical progress (total factor productivity growth), capital accumulation, and labour force growth.

In the Asian Century scenario, some members of the AIFTA are expected to have a high growth in the numbers of their middle classes. India is predicted to have the largest upper- middle class populations in Asia, or even the world. By 2030, according to the ADB projection, India is to have a middle and upper- middle class population around 1.1 billion and 40 million people respectively. By 2050, these numbers are expected to increase to 1.4 billion and 190 million people

respectively. Meanwhile, China is estimated to hold second position with the number of upper- middle class around 1.24 billion people. The members of ASEAN that are envisaged as having a large middle-class population are Indonesia and Vietnam. By considering their current good and consistent economic performances, in 2030 there would be 220 million members of the middle class in Indonesia, and 80 million in Vietnam.

**Table 2.** Projections of the populations of middle and upper classes and GDP per capita

| Countries         | 2030                              |                                  |                          | 2050                              |                                  |                          |
|-------------------|-----------------------------------|----------------------------------|--------------------------|-----------------------------------|----------------------------------|--------------------------|
|                   | Middle-class population (million) | Upper-class population (million) | GDP per capita USD (PPP) | Middle-class population (million) | Upper-class population (million) | GDP per capita USD (PPP) |
| China             | 1120                              | 40                               | 21,100                   | 1240                              | 190                              | 47,800                   |
| India             | 1190                              | 15                               | 13,200                   | 1400                              | 210                              | 41,700                   |
| Indonesia         | 220                               | 5                                | 13,500                   | 250                               | 40                               | 37,400                   |
| Japan             | 100                               | 20                               | 48,900                   | 60                                | 40                               | 66,700                   |
| Republic of Korea | 30                                | 20                               | 60,200                   | 10                                | 35                               | 107,600                  |
| Vietnam           | 80                                | 2                                | 11,900                   | 100                               | 15                               | 33,800                   |
| World             | 4990                              | 580                              | 19,400                   | 5900                              | 1500                             | 36,600                   |
| USA               | 185                               | 190                              | 65,500                   | 120                               | 290                              | 98,600                   |
| Germany           | 50                                | 30                               | 51,300                   | 25                                | 50                               | 77,800                   |

Source: Centennial Group projections, ADB Report (2011)

**Table 3.** Size of middle class by country (based on household surveys, in 2005 PPP)

| Country  | Survey year | Percentage of population |        |         |       |       | Total population (million) |        |         |       |       |
|----------|-------------|--------------------------|--------|---------|-------|-------|----------------------------|--------|---------|-------|-------|
|          |             | \$2-4                    | \$4-10 | \$10-20 | Total | \$20+ | \$2-4                      | \$4-10 | \$10-20 | Total | \$20+ |
| Malaysia | 2004        | 27.0                     | 48.1   | 14.1    | 89.2  | 3.4   | 6.81                       | 12.1   | 3.5     | 22.49 | 0.8   |
|          |             | 5                        | 0      | 3       | 8     | 4     |                            | 2      | 6       |       | 7     |
| Thailand | 2004        | 33.5                     | 41.6   | 10.6    | 85.8  | 3.4   | 21.8                       | 27.2   | 6.9     | 56.02 | 2.2   |
|          |             | 0                        | 9      | 3       | 2     | 6     | 7                          | 1      | 4       |       | 6     |

|             |      |       |       |      |       |      |       |       |      |        |      |
|-------------|------|-------|-------|------|-------|------|-------|-------|------|--------|------|
| Philippines | 2006 | 31.49 | 19.65 | 3.80 | 54.94 | 0.70 | 27.43 | 17.11 | 3.31 | 47.85  | 0.61 |
| Vietnam     | 2006 | 35.53 | 14.81 | 1.93 | 52.27 | 0.15 | 29.89 | 12.46 | 1.62 | 43.97  | 0.13 |
| Indonesia   | 2005 | 34.96 | 10.46 | 1.16 | 46.58 | 0.26 | 77.10 | 23.07 | 2.55 | 102.72 | 0.58 |
| Cambodia    | 2004 | 24.7  | 7.41  | 0.91 | 33.04 | 0.33 | 3.39  | 1.02  | 0.12 | 4.53   | 0.05 |
| Lao PDR     | 2002 | 19.6  | 3.88  | 0.41 | 23.89 | 0.02 | 1.10  | 0.22  | 0.02 | 1.34   | 0.00 |

Sources: Chun (2010) and ADB (2011)

The increase in the middle-class populations will stimulate supply and demand. On the supply side, they will be a source of savings, and well-educated labour. Meanwhile, on the demand side, the middle class clearly will drive an increasing demand for better quality goods and services. Moreover, in the medium and long run, a society, predominantly middle class and well educated, will encourage a climate of innovation and entrepreneurship and this, in turn, will generate innovative and high added-value goods and services.

To realise this prediction, Asian economies must be able to overcome those regional, national and global

obstacles and challenges that might emerge. Any increasing social inequities within countries is one obstacle that should be carefully monitored in the administration of the AIFTA. Other obstacles include those countries that risk falling into the middle-income trap; intense competition for finite natural resources (energy, water and fertile land); global warming and climate change; and governance and institutional capacity. These challenges are not mutually exclusive; they can affect one another, aggravate current tensions, unrest and conflict, or perhaps create new pressure points in and across Asia that could threaten growth, stability and security.

The question is then, what can be done by the AIFTA to overcome such obstacles and challenges? Primarily, the AIFTA has proven that liberalisation under its framework is working and contributing to trade expansion for the parties involved. However, the effect is relatively small compared to other FTAs negotiated with ASEAN. Much research supports the idea that liberalisation will have positive effects on increasing trade in the region, and consequently boosting economic growth. Therefore, the first thing that should be considered by the AIFTA is to increase trade liberalisation among the member nations. As explained earlier, the degree of trade liberalisation under the AIFTA is the lowest among the FTA agreements so far negotiated with ASEAN. As well as increasing trade liberalisation, issues other than trade should be also taken into account in the agreements. For instance, the liberalisation measures should also deal with the issue of capacity building for businesses categorised as small and medium enterprises (SME).

Strengthening SME capacity building has potentially at least three effects for members of the AIFTA.

First, it will contribute to strengthening each member's economy structure. SMEs comprise the largest business grouping as well as being the economic backbone of most ASEAN countries and of India. Second, it is expected to assist SMEs in improving their competitiveness. Third, improvements in SME's capacity building will help to establish the basics for inclusive growth. In the AIFTA member countries, geographically, most SMEs are to be found in the urban and rural areas. Thus, empowering SMEs means generating economic activities not only in the central but also in the peripheral areas.

## **REGIONAL TRADING ARCHITECTURE**

The pattern of economic pattern in the Asia-Pacific region could change in the next few years. To date, the common practice for economic cooperation has been to establish bilateral and regional partnerships under an FTA scheme. In many cases, bilateral FTAs in this region overlap regional FTAs. Such complexity of bilateral, regional and multilateral FTAs is also known as the 'spaghetti bowl phenomenon'.

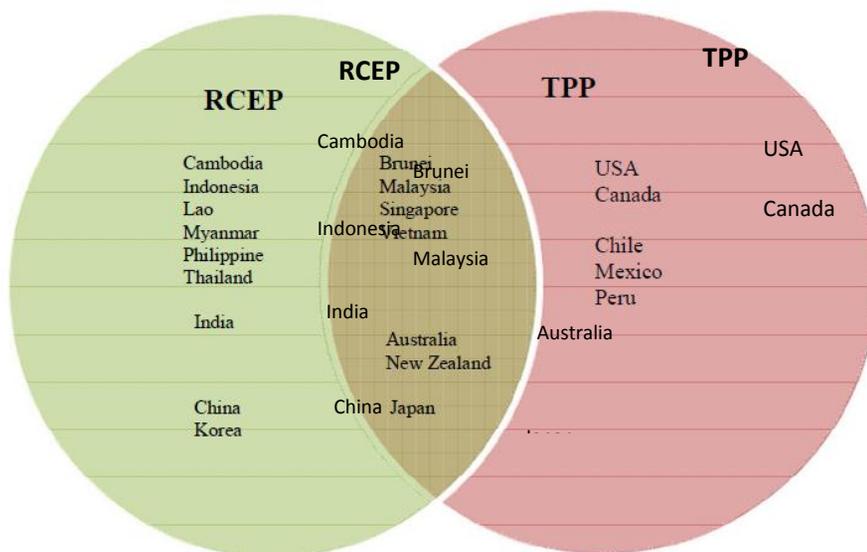
Sally (2006), without mentioning ASEAN FTAs specifically, argued that most FTAs (except the EU, NAFTA and ANZCERTA) are nonsense. Such FTAs are weak, often falling short of WTO provisions. Furthermore, Sally mentioned that such FTAs tend to be driven by foreign policy aspiration using justifications that are all too often vague, muddled and trivial, and that have little relevance to commercial realities and to the economic nuts and bolts of trade agreements.

The spaghetti bowl phenomenon indicates that, basically, most countries have a strong motivation to be involved in trade liberalisation. However, most have some concern that the complexity of FTAs, with their different rule-of-origin schemes, tariff and non-tariff barriers, has created conditions that have led to inefficiency and, finally, to increased transaction costs. These can be disincentives for the business sector, particularly for SMEs, to take advantage of the opportunities opened up by FTAs. To circumvent such complexity, a regional trading architecture is urgently needed that

would provide better, simpler and more equitable economic relations between the parties involved.

### **Trans-Pacific Partnership versus Regional Comprehensive Economic Partnership: competition between two giants**

Negotiations on future regional trading architecture in the Asia–Pacific region is converging to two blocs: Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP). The TPP is led by the USA and there are twelve participating countries: the USA, Canada, Mexico, Peru, Chile, Malaysia, Singapore, Brunei, Vietnam, Japan, Australia and New Zealand. On the other hand, the RCEP comprises the ten members of ASEAN and the FTA partners: China, India, Japan, Korea, Australia and New Zealand. There is an overlap of membership; seven of the RCEP members (Malaysia, Singapore, Brunei, Vietnam, Japan, Australia and New Zealand) are also actively involved in the TPP negotiations.



**Figure 1.** Participating countries in the Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership

**Table 4.** Regional Comprehensive Economic Partnership and the Trans-Pacific Partnership Indicators

| Indicators                                              | RCEP | TPP  |
|---------------------------------------------------------|------|------|
| Population (billion)                                    | 3.4  | 0.66 |
| Population (per cent of world population)               | 48   | 9.4  |
| GDP (PPP, trillion USD)                                 | 26.1 | 20.8 |
| GDP (per cent of world GDP)                             | 33   | 26   |
| Merchandise trade (trillion USD)                        | 10.1 | 7.8  |
| Merchandise trade (per cent of world merchandise trade) | 28   | 21   |

Source: World Economic Outlook, IMF, October 2012 database, Basu Das, 2013.

The TPP offers a comprehensive and high-standard model for cooperation. 'Comprehensive' means that the TPP will cover liberalisation of trade in nearly all goods and services and such wider issues as tariff and non-tariff measures, investment, competition, intellectual property rights, the role of state owned enterprises and more. 'High standard' refers to the elimination of all tariff and non-tariff barriers in all areas of cooperation. In all, TPP liberalisation includes trade liberalisation in goods, services, investment, intellectual property rights, environmental protection, labour, financial services, technical barriers to trade and other regulatory matters. TPP membership is open for members and non-members of APEC.

In the context of geo-economics and geo-politics, the aggressiveness of the USA in promoting the TPP should be read as part of its political scenario in the Pacific region. The USA has a strong concern that the emergence of China as the second largest economy in the world will strengthen Chinese influence in the region, particularly in Asia. China has been asserting its position in the region, exemplified by the disputes it has had with Taiwan,

Japan and about South China Sea. The USA does not have cause enough to deny China's ambitions through overt political and economic means. Tanaka (2006) argues that if the USA continues or increases its unilateralist behaviour, China would have no incentive to be more accommodating. Therefore, promoting a TPP without inviting China to the negotiations denotes US intentions to retard China's influence in the region.

Further, the USA has concerns about China's efforts to dominate ASEAN in economic and security matters. Currently, China is proposing to increase FTA liberalisation with ASEAN. It is Medeiros' (2005) view that China's embracing of ASEAN is not only for economic purposes but is also a 'hedging strategy' to offset US domination in the Asian region. The USA's concern on this issue is demonstrated by its efforts to bind ASEAN with a number of agreements. In November 2012, in Phnom Penh, the US president, with leaders of the ten ASEAN countries, drew up a framework for expansion of economic cooperation between ASEAN and the USA. This cooperative framework is called the US-ASEAN Expanded

Economic Engagement or the E3 initiative.

At the same time, the USA also has taken no interest in including India in TPP negotiations. Looking back to the Doha Round negotiations, the USA accused China and India of being countries that have to take responsibility for the negotiation deadlocks. Excluding China and India from the TPP, the USA expects two advantages: to lower the risk of deadlocked negotiations in the TPP; and to repress the rising influence of China and India in the Asian region.

Choi and Lee (2013) predict two possible scenarios for what might happen with the TPP and the RCEP; one convergent and one fragmented. The convergent scenario is that the Asia–Pacific region will consolidate into a region-wide free-trade agreement, such as an FTAAP (Free Trade Area of the Asia–Pacific). The fragmentation scenario posits that the overlapping membership of the TPP and the RCEP will be incomplete and that, in particular, the USA and China will not be members of both. Four variables are expected to influence the outcome of the talks: (a) the cost of

fragmentation (benefit of integration) of the two region-wide FTAs; (b) the different negotiating interests of participating economies; (c) the domestic political pressures from politically sensitive sectors; and (d) international political rivalry. Further, they predict the fragmented scenario to be more likely.

An RCEP that takes into account the expectations or traditions of ASEAN primacy, that is, that ASEAN stands above any trade or commercial treaties negotiated by member nations; such an RCEP offers a more flexible and reasonable scheme of liberalisation for the Asia–Pacific region. It acknowledges that the participating economies are at different stages of development; therefore, an RCEP will provide ‘special treatment’ and ‘exceptions’ for particular member countries that are assumed to need more preparation and adjustments. An RCEP scheme would cover trade liberalisation in goods, services and investment, technical cooperation, intellectual property, dispute settlement and more. As analysed by Menon (2013), if implemented, an RCEP could create the world’s largest trading bloc with sizeable economic gains for the

countries involved. Further, such a partnership would be significant in the geo-political battle to shape the future of regional trade rules and standards.

An RCEP is expected to be able to protect politically sensitive products (primary and manufacturing) from exposure to competition from foreign producers. ASEAN countries should be very aware that the presence of early full liberalisation, such as from the TPP, in the Asia-Pacific region, will increase US domination in the region without there being countervailing powers. Similarly, when ASEAN members disagree, ASEAN primacy in the RCEP will be in question and this has the potential to strengthen the role of China in the region. If this scenario is realised, then the presence of two trade blocs, TPP and RCEP, will only be a battle of two dominating economies, the USA and China.

**In what respects can the AIFTA support RCEP as a future regional trading architecture?**

The AIFTA, with 53 per cent of total RCEP population and 31 per cent of total RCEP trade, could significantly influence the shape and structure of a

regional trading architecture. There are at least three aspects that could be addressed by the AIFTA: strengthening the unity of RCEP participating countries; realigning power among RCEP participating countries; and as a trade hub to other regions.

***Strengthening the unity of RCEP participating countries***

Measures to strengthen the links between RCEP countries are mainly to ensure that those ASEAN countries that are linked to both trade schemes are more committed to the RCEP than to the TPP. It is clear that any division of ASEAN members into TPP and RCEP blocs could undermine ASEAN's primacy in the RCEP design. Constituents of the AIFTA, India in particular, can lobby these ASEAN countries about the importance of ASEAN primacy in the RCEP.

There are some important reasons why regional integration under an RCEP framework would provide more benefits to ASEAN than would the TPP scheme. First, ASEAN primacy would be retained under an RCEP scheme. In the short term, it is necessary at least to

support the ASEAN Economic Community, which will take effect at the end of 2015. Meanwhile, in the medium and long term, ASEAN primacy will put it into a stronger bargaining position in the region.

Second, a TPP liberalisation scheme is more suitable for members that are at a similar stage of development. It is widely known that the stages of development of ASEAN member countries vary greatly. Forcing some members of ASEAN to meet advanced standards of liberalisation will require drastic domestic reforms in those countries, which is hard to do in the short term. Domestic reform is necessary for ASEAN countries to adjust to global changes but must be done in a way that will avoid causing turbulence in the economic, social and political institutions.

Third, an RCEP can be regarded as an 'exercise field' for the various free trade areas negotiated with ASEAN to compete with more and stronger competition. ASEAN members that can be categorised as advanced and more developed should work to strengthen the capacity of less-developed

members to minimise the differentials among the members.

Fourth, an intratrade and regional production network (RPN) among RCEP members would increase significantly more than it would with TPP. This could occur for one or more of the following reasons: (a) the growing middle-class population in the RCEP participating economies would push demand for goods and services produced by RCEP members (b) intratrade among RCEP countries would stimulate RPN development in the region; and (c) the demand from advanced countries, for example, the USA, Canada, Australia and New Zealand, for common primary and secondary products from developing countries similar to RCEP members would tend to decline. The demand from advanced countries will shift to high standard quality, primary products and high technology secondary products that many developing countries will not have enough capacity and technology to produce.

### ***Redressing the power among RCEP countries***

In the context of political economy, the AIFTA is expected to counter the dominance of China in the Asia region. It will be difficult to develop a trade bloc that will be dominated by a country that has enormous economic, politic and military power. It will be difficult to develop a trade bloc that will be dominated by a country that has enormous economic, politic and military power. A trade bloc, regardless of its constituents, should have bargaining power distributed fairly among its members. There is every indication that China would dominate the integration of trading relations within the Asia region. As explained by Sally (2006, p. 309), with the ASEAN–China FTA, politically, China would like to use it to establish leadership credentials in East Asia. Economically, it wants extra export-market access as well as secure access to energy and other commodities. Overall, China clearly intends to be the political and economic driving force in the region.

### ***Hub to other regions***

The AIFTA is expected to become a hub between the RCEP and other regions in Asia. For instance, in the South Asia region, India is so far the only nation that has established FTAs with ASEAN and has also joined RCEP. South Asia has great economic potential, largely untapped, that would be optimised under bilateral and or regional trade cooperation. The AIFTA, which has shown positive performance over the past three years should be able to inspire countries in South Asia to join the RCEP.

If some countries in South Asia were persuaded to join the RCEP, then its power and its benefits would be greater. With more countries being members of the RCEP, the size of the markets would expand and, consequently, the economic and trade benefits. In terms of regional security, enabling cooperation within South Asia, which is now partly seen as a region of unrest, would encourage countries in the region to make domestic reforms. Certainly, it will not be easy to ensure that countries in this region take part in the RCEP. To borrow an idea from Kartadjoemena

(2001), the RCEP should, therefore, use a 'soft option' scenario at the policy level; some South Asian countries could be encouraged to join RCEP, without necessarily expecting the RCEP to produce dramatic changes in their economies. Nevertheless, it would encourage interdependence and wider regional trade. Further, RCEP connection to the South Asia region would be the bridge for more intense cooperation with countries in the Central Asia region.

## **CONCLUSION**

The ASEAN–India strategic partnership under the AIFTA framework has benefited the parties involved. Under the AIFTA, most trade protection, particularly tariffs, has been reduced significantly. However, this has not gone far enough yet to increase trade and cooperation between ASEAN and India. Of the FTAs already in operation between ASEAN and other nations in the region, the AIFTA is regarded as the FTA that has the least trade liberalisation. Therefore, the AIFTA should propose an increasing liberalisation among the members by addressing not only the issues of trade

and investment, but also that of capacity building for SMEs. Nowadays, SMEs comprise the largest business grouping as well as the economic' backbone of most of ASEAN countries and of India.

In the wider context of liberalisation, the AIFTA is also envisaged to play an important role in designing future regional trading architecture in the Asia–Pacific region. As forecast by the ADB, of the seven countries that would be the main engines of economic resurgence in Asia over the next decades, the so-called Asian Century, four are members of the AIFTA: India, Indonesia, Thailand and Malaysia. Kliman and Fontaine (2012) consider India and Indonesia, together with Brazil and Turkey, as the 'Global Swing States', which are predicted to influence the course of current and future international order.

Debate on the issues of regional trading architecture focuses on two blocs; the RCEP and the TPP. The RCEP, which respects ASEAN primacy, offers a softer and more reasonable scheme of liberalisation in the Asia–Pacific region. ASEAN countries should be well aware that the

presence of early full liberalisation, exemplified by the TPP, in the Asia-Pacific region will increase US domination in the region without any countervailing powers. Similarly, when ASEAN members have an ambiguous position between TPP and RCEP, ASEAN primacy in the RCEP will be in question, and this has the potential to further increase the role of China in the region. If this were to happen, then the presence of two blocs, TPP and RCEP, will only be a battle of ‘two giants’, the USA and China.

The AIFTA, with 53 per cent of total RCEP population and 31 per cent of total RCEP trade, could play a significant role in influencing the future shape and structure of regional trading architecture. There are three aspects, at least, that could be addressed by AIFTA; strengthening the unity of RCEP participating countries, redressing power imbalance among RCEP participating countries, and becoming hub to other regions.

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