

India – Asean: Trade Relation Analysis and Its Exclusion

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Abstract

The trade relations between India and the Association of Southeast Asian Nations (ASEAN) have developed drastically in the past thirty years and graduated through the low economic interactions to strategic alliances in the framework of agreements such as the India-ASEAN Free Trade Agreement (AIFTA). Even though India is actively participating in ASEAN, the choice to leave the Regional Comprehensive Economic Partnership (RCEP) has cast doubt on its trade policy and integration with the region. The paper provides an overview of the historical evolution of India-ASEAN trade, the effect of AIFTA on bilateral trade flows, why India was not offered membership in RCEP, and the overall implication of this to the Indian economic positioning. The analysis also brings out effects specific to the sector and gives policy suggestions that could increase the involvement of India in the global trade structure with the ASEAN.

Introduction

Economic growth and regional integration is based on trade. In the case of India, ASEAN is an important economic ally based on its geographical location, complementary markets and rising economic theatrics. The India ASEAN relations started to develop with the help of the so-called Look East Policy of the early 1990s based on the necessity to enhance political, economic, and cultural relations with the countries of Southeast Asia. The relationship has grown over the years to incorporate strategic partnerships and trade agreements which have been geared towards a mutual growth. In 2009, AIFTA, a Free Trade Agreement was signed and came into effect in 2010, which was a major milestone in this relationship. It sought to liberalize the trade of goods and services, to enhance investment and further integration of the economy. Nonetheless, India withdrew its membership to the Regional Comprehensive Economic Partnership (RCEP) in 2019, based on the argument of trade imbalance and the weakness of the domestic industry. This research paper is aimed at critically examining India-ASEAN trade relationship, the measures of the AIFTA, the consequences of India not being a member of RCEP and recommendations on how India can enhance its trade policy with ASEAN countries.

2. Historical Context of India–ASEAN Trade Relations

2.1 Pre-1990s Period

Prior to the economic liberalization of India in 1991, trade with the ASEAN countries was restricted. The exports of India were limited by protectionist measures, tariffs and red tape. In the meantime, the economies of ASEAN nations grew more united, and their trade policies went towards liberalism. This disequilibrium constrained the leverage of the ASEAN market by India.

2.2 Post-1991 Economic Reforms Economic reforms that took place in 1991 in India created a breakthrough.

The government lowered the duties on imports, liberalized the major sectors of the economy and promoted foreign investment. This is the time when ASEAN was experiencing a high rate of economic growth and a good opportunity to bilateral trade existed. India introduced the Look East Policy as an active policy to be involved in the activities of Southeast Asia and develop diplomatic and economic relationships to improve trade and investments and technological collaboration.

2.3 Establishment of AIFTA In 2009 the India- ASEAN Free Trade Agreement

(AIFTA) was signed and applied in 2010. It was geared towards removing tariffs on most of the traded commodities, non-tariff barriers, trade in services, and the flow of investment. AIFTA was made to enhance the economic presence of India in the ASEAN region and at the same time both parties benefit.

3. Analysis of the India-ASEAN Free Trade Agreement (AIFTA)

3.1 Objectives of AIFTA

The primary objectives of AIFTA include:

- **Trade Liberalization:** Reduction of tariffs and elimination of trade barriers.
- **Promoting Investment:** Encouraging foreign direct investment (FDI) between India and ASEAN.
- **Economic Integration:** Enhancing regional economic cooperation and integration.
- **Sectoral Development:** Strengthening strategic sectors like textiles, IT, pharmaceuticals, and agriculture.



3.2 Implementation and Essential Provisions. The deployment of AIFTA covered:

• **Tariff Reductions:** Phase out of tariffs on 80% of traded goods in 10 years. Rules of Origin: Making sure that products are actually of India or members of the ASEAN to benefit

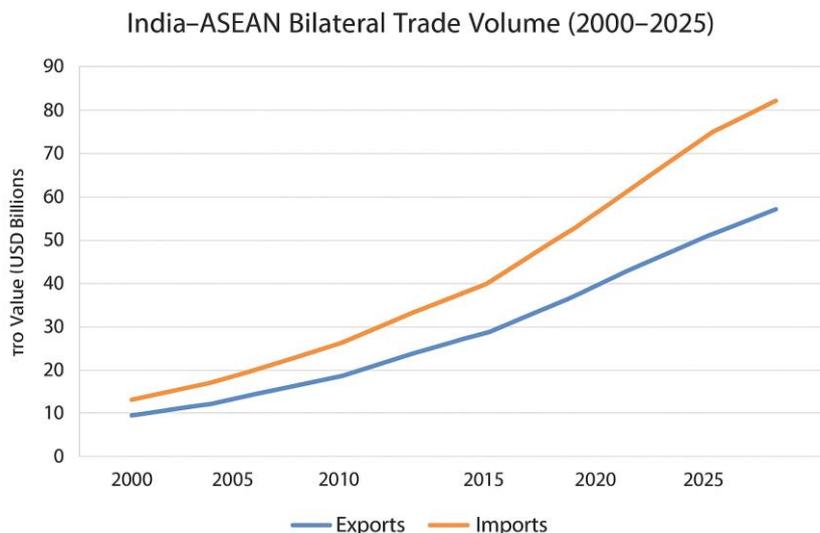
t. • **Dispute Settlement Mechanism:** It involves the provision of legal frameworks to settle trade disputes effectively. Agreement Trade Liberalization: Services Trade liberalization as it facilitates IT, financial, healthcare, and educational services across borders.

3.3 Impact on Bilateral Trade In the period after AIFTA, the trade between India and the ASEAN nations grew significantly. Key observations include:

• **Increased Trade Volume:** The total trade expanded between 30 billion in 2009 and more than 100 billion in 2022. Trade Deficit Issues: India tends to have imports that are higher than exports in the ASEAN leading to trade deficits, especially in electronics, palm oil and machinery.

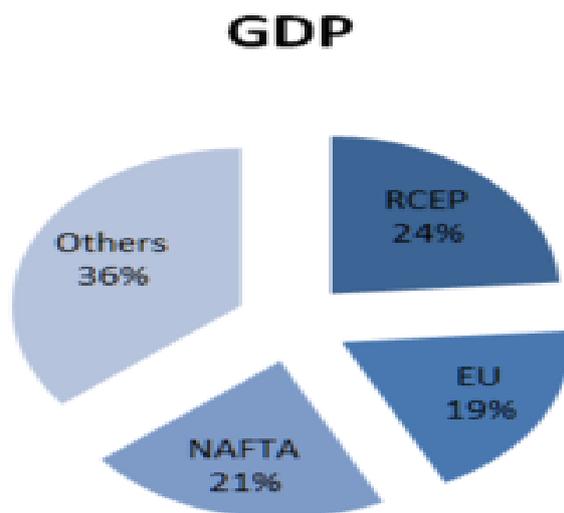
4. Sectoral Imbalances:

India has pharmaceuticals, textiles, and IT services as the major export products whereas the export products of ASEAN include electronics, palm oil, and machinery.



4.1 Overview of RCEP

The Regional Comprehensive Economic Partnership (RCEP) is a mega free trade agreement that includes ASEAN nations and six FTA partners: China, Japan, South Korea, Australia, and New Zealand. It covers trade in goods, services, investment, intellectual property, and dispute settlement.



4.2 Motives behind the Indian withdrawal.

In November 2019, India chose to withdraw. The primary reasons include:

- Trade Deficit Issues: There are the risks of increased imports of China and other countries in the RCEP, which would worsen the trade deficit of India.
- Localized Industry Protection: Liberalized imports may have a negative impact on vulnerable industries such as agriculture, dairy, and textiles.

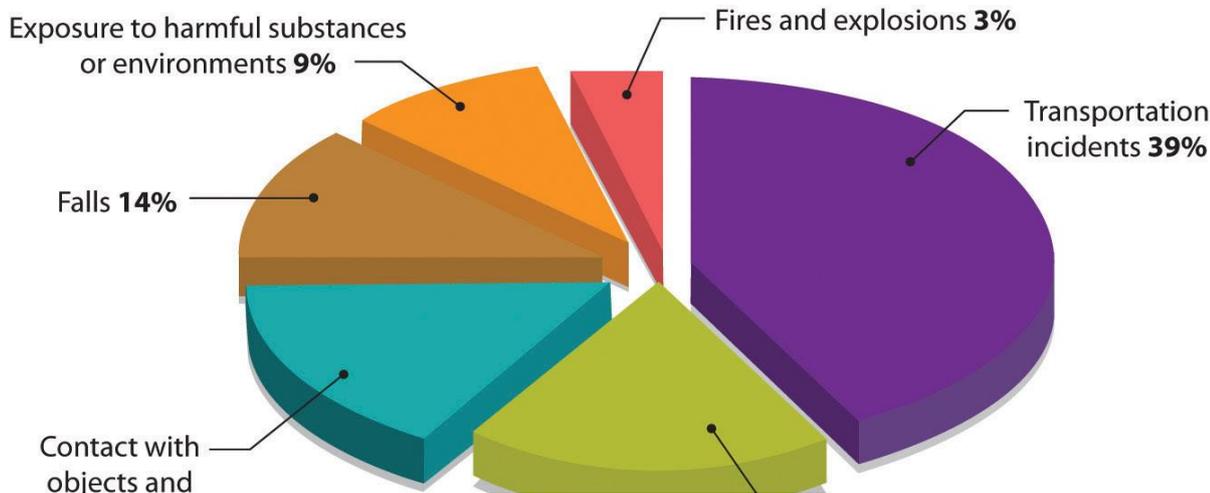
- Structural Challenges: The domestic industries may be yet to be competitive enough to deal with the market pressures of RCEP.

4.3 Implications of Exclusion

Short-Term: Domestic industries protection and avoidance of import shocks.

Long Term: It may lose access to the market, lose investment opportunities and strategic power in the regional trade conditions.

5. SECTORAL IMPACT



5.1 Agriculture

India sells rice, spices and tea to the ASEAN countries. But the imports of palm oil and seafood by ASEAN have brought about trade imbalances. AIFTA assisted the Indian farmers to enter the ASEAN markets, yet the lack of accessibility to the RCEP constrains the extension of the market.

- Exports: India exports rice (Basmati), spices (turmeric, pepper) tea, sugar and fruits (mangoes) to ASEAN countries.

Imports Palm oil, sea food, and rubber of ASEAN contribute to a trade deficit.

- Impact: AIFTA threatened to open Indian farmers to the ASEAN markets but the danger of ASEAN subsidized products competing with the local agriculture can be an outcome.

Examples This is dominated by palm oil by Indonesia and Malaysia at the expense of Indian edible oil production.

5.2 Manufacturing

The major exports of India are textiles, automobiles and pharmaceuticals. AIFTA trade liberalization has opened up markets although there is the challenge of competition with cheaper imports in the ASEAN region.

- Exports: Textiles, cloth, leather goods, automobiles and machinery and pharmaceuticals.

- Imports: Electronics, machinery and automotive components of the ASEAN countries.

Impact Manufacturing will be advantaged by increased market entry, but will have price competitiveness issues and technology lag.

Asp. e.g. textile cluster: Tirupur garment exporter to ASEAN, however, the local markets are influenced by the inexpensive electronic imports in Malaysia and Thailand.

5.3 Services

Some of the key services that India exports are IT, healthcare and education services. The liberalized service trade agreements under AIFTA has enhanced the global presence of India and the non-membership in the RCEP does not have much short term effect on services.

- Exports: Digital solutions, business process outsourcing (BPO), IT services, and software.

- Impact: The IT industry in India has been using the ASEAN markets to increase cloud services, fintech and IT-based services.

Examples: Infosys and Wipro are the Indian based IT firms that have initiated offices in Singapore, Malaysia and Philippines.

5.4 Investment

India–ASEAN FDI flows have grown steadily. Companies like Tata, Infosys, and Wipro have invested in ASEAN, while ASEAN investors like Singaporean and Malaysian firms invest in India. RCEP exclusion may slow down some potential investment opportunities.

6. Comparative Analysis

6.1 India–Japan CEPA

The Comprehensive Economic Partnership Agreement between India and Japan gives knowledge in strategic trade partnerships and the advantages of bilateral agreements. The CEPA lessons indicate that India should concentrate on niche sectors to enjoy the greatest benefits.

6.2 India–EU Trade Relations

The trade between India and the European Union focuses on the quality of products, regulation, and high end products. The EU experience in the relationship can be used in the ASEAN trade to enhance competitiveness.

6.3 ASEAN Free Trade Agreement with China.

The trade between ASEAN and China indicates that the prevalence of regional trade over extensive agreements can be achieved. India should think about specific reforms in order to be competitive.

7. Policy Recommendations

- Improving AIFTA: Intensify efforts to lower non-tariff impediments and balance the vistas of trade.
- Strategic Intervention in RCEP: Review the conditions in future inclusion without harming the domestic sectors.
- Sectoral Competitiveness: Invest in such critical sectors as textiles, pharmaceuticals, and IT services to improve the global competitiveness.
- Trade Diversification: Tap into other markets outside the ASEAN and RCEP countries to diversify and increase global presence.
- Enhancing the AIFTA Implementation.
- Re-examine Tariff Structures: Tariffs should be checked frequently to guarantee the sensitive industries in India (agriculture, dairy, textiles) are safeguarded.
- Solve Non-tariff barrier: Collaborate with ASEAN to ease technical standards, certifications and licensing barriers impeding Indian exports.
- Increase Dispute Resolution Mechanism: This will make the dispute resolution quicker and open-minded in order to cushion the Indian exporters.

 Sectoral Competitiveness Improvement.

Agriculture: Invest in cold storage, logistics and modernization of the supply chain to compete with imports of palm oil and seafood in ASEAN.

- Manufacturing & Textiles: Advance adoption of technology, promotion of skills and modern mode of production to enhance quality and decrease costs.

- IT & Services: Spur the development of digital infrastructure and cybersecurity systems that will support the export of IT.

- Pharmaceuticals: Invest in R&D and vaccine and generic medicine innovation to lead the ASEAN markets.

RCEP Strategic Participation.

- Conditional Re-entry: Agree on terms that will safeguard domestic industries but enjoy bigger ASEAN markets.

- Target the Driver Areas: Determine which sectors India has a competitive edge (IT services, pharmaceuticals, textiles) to use RCEP entry.

- Track Competitor Action: The ASEAN-China trade integration should be monitored to determine the threats and opportunities.

Diversification of Trade Partners.

Beyond ASEAN: Find other collaborators in Africa, Latin America and Middle East to limit the over reliance on ASEAN markets.

Otherwise, encourage the regional specialization of India, which is a special production such as Basmati rice, spices, handicraft and IT products to the foreign market.

Investment Promotion

- Reward FDI in Key Sectors: Issue tax exemption and policy incentives to lure ASEAN investors in manufacturing, IT and healthcare.

- Public-Private Partnerships: The partnerships with Indian and ASEAN firms in the infrastructure, technology and logistics should be encouraged.

- Investment Facilitation Cells: Investment desks should be created in major ASEAN capitals to facilitate the process of investment.

Infrastructure and Logistics Development.

Improve connectivity: Build ports, roads, rail, that will speed up logistics of exports.

- Digital Trade Platforms: Invest in online trading platforms to bridge the Indian SMEs and the ASEAN buyers.

- Supply Chain Resilience: Advance supply chain diversities to avoid reliance on a particular nation.

Capacity Building and Skill Development.

- Industry Training Programs: Train Indian employees on high level manufacturing, IT services and pharmaceuticals to ASEAN levels.

- Education Collaboration: Promote skill development programs in Indian universities in collaboration with the ASEAN institutions.

SME Support:

Provide SMEs with export training, funding system and access to ASEAN trade fairs.

- 7.8 Technology and Innovation

- Digital Customs, Logistics and Trade Documentation: Introduce blockchain and AI in customs, logistics and trade documents.

R&D Incentives: Promote innovation in such areas as renewable energy, biotech, and pharmaceuticals in order to create a competitive advantage.

New objectives: Implement Industry 4.0 technologies in textiles, automobiles, and electronics to enhance efficiency.

Financing and Risk Management of Trade.

- Export Credit Support: Indian exporters to the ASEAN markets: loan out on low interest and credit guarantees to exporters.
- Currency Risk Mitigation: Create hedging to cushion the exporters against the risk of currency changes.
- Insurance Schemes: Provide export insurance in order to protect against geopolitical or economic shocks.

Enhancing Bilateral and Multilateral Investment.

- Consistent Summits and Dialogues: Hold India-ASEAN trade summits to deliberate on the barriers, opportunities, strategic cooperation.
- Cultural & Educational Interchange: Spread awareness of the Indian products, culture and services in ASEAN markets.
- Regional Alliances: Collaborate with other regional partners that share similar goals to come up with favorable terms in regional trade agreements

8. Conclusion

India and ASEAN trade relations have significantly increased in the past three decades. AIFTA enabled the liberalization of trade, sector development as well as investment flows. Nonetheless, some troubles, such as deficits in trade and imbalance in the sectors, still exist. The exclusion of India in RCEP helped in the protection of industries in India but restricted the possibilities of long term regional integration. The future policies must be more on strengthening AIFTA, equipping the domestic sectors to compete globally and taking a safe step on joining regional trade agreements to create sustainable economic growth.

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