



## FICCI SURVEY

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### **Business Beyond Barriers**

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*ASEAN Desk  
International Affairs Division  
FICCI, New Delhi*

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## Survey Back Ground

One of the major factors for Asia's recent growth is the rise in regional cooperation among Asian countries, in the past decade. Asian economic integration ensures financial stability, mobilization of resources for development, and creation of strong foundations for future expansion. The 10 ASEAN Countries particularly have played an important role in the Asian success story, besides India & China. India has managed to successfully forge closer economic links with ASEAN, as ASEAN represents a fast growing opportunity for growth in trade & investments. ASEAN is also strategically vital to the emerging dynamics in Asia, as part of India's 'Look East Policy'.

The ASEAN-India "Trade in Goods Agreement" which was signed in 2009, came into effect from August 2011 and is now fully operational. The India-ASEAN "Trade in Goods Agreement" provides for a progressive tariff reduction for goods traded between the 10 ASEAN member countries and India. This was a big step towards India-ASEAN trade relations, though gains from this FTA are not yet fully realised.

Under this FTA, India and ASEAN member countries will gradually slash tariffs for over 4,000 product lines and eliminate Import tariffs between 2013 & 2016. With CLMV countries this phasing of tariffs extends to 2021. Currently the FTA is restricted to trade in goods while negotiations for a similar agreement for Services and Investment are still under way and its early conclusion was announced recently by our Prime Minister in East Asia Summit at Brunei Darussalam, on October 10, 2013.

The ASEAN relationship is also expanding further in form of "**Regional Comprehensive Economic Partnership (RCEP)**" or "ASEAN+6". RCEP involves the other 5 FTA partners of ASEAN besides India, viz. Australia, Japan, Korea, New Zealand and China.

RCEP Agreement would broaden the economic engagement in Asia and avoid the noodle-bowl effect of overlapping bilateral FTA agreements in the region. The ASEAN+6 arrangement has an open structure and is flexible for the countries to join as per the convenience. 10 ASEAN + 3 pacific countries (Australia, New Zealand, and Japan) have already agreed to sign this in principle.

In this backdrop, FICCI's survey "**Business Beyond Barriers**" was conducted with the objective to ascertain factors impacting trade & investments between India & ASEAN. In addition effect of India-ASEAN FTA on Indian Industry is also analyzed across industry segments.

## Executive Summary

The full benefits of the ASEAN India Free Trade Agreement on “Goods”, which came into effect in August 2011, are yet to be seen. This is evident from trade between India and ASEAN which has stagnated under US\$80 billion, for the last two years, though we are targeting US\$ 100 billion by 2015. Seeing this potential, on side-lines of 10th ASEAN Summit at New Delhi, in December 2012, the Trade and Commerce Ministers of India and ASEAN announced early conclusion of a comprehensive India-ASEAN FTA, covering not only goods but also investments and services. This new FTA is likely to be signed by end of this year, as announced by Prime Minister of India recently at the 11th ASEAN-India Summit in Brunei. In this backdrop, FICCI has conducted an industry survey “Business Beyond Barriers”, to understand issues which are impacting growth in trade and investment between India and ASEAN. The key findings of the Survey are as follows:

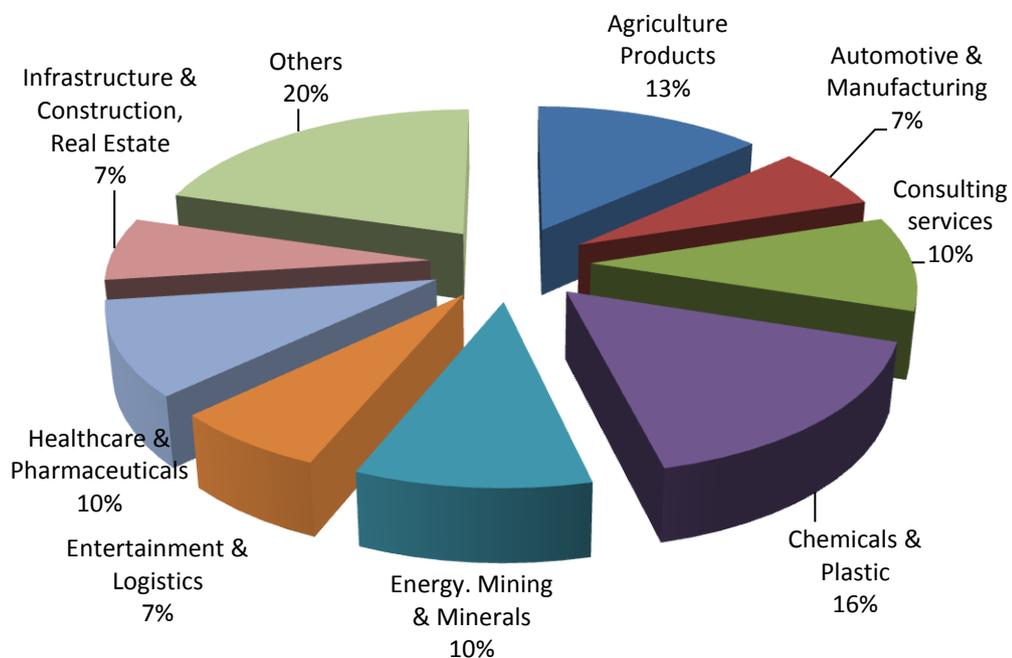
1. The general feeling amongst the Indian Industry is that doing business with ASEAN is ‘easy’. This relates to the fact that Singapore, Malaysia & Thailand, which have 60-65% share of our trade with ASEAN and also hold majority in terms of investments, are amongst the top countries in terms of Global Ease of Doing Business Ratings.
2. Respondents are doing business mainly with Singapore, Malaysia, Thailand, Indonesia, Vietnam and Philippines. This is in line with current status of trade & investment with ASEAN, wherein over 95% of our trade and FDI is commanded by these **6 countries**.
3. Among the respondents, majority belong to agri products, mining & minerals, chemicals & plastics, pharmaceuticals & healthcare and services **sectors**.
4. Among the respondents citing impediments in Initiating Business with ASEAN, most issues relate to **labour norms, licensing processes, registrations, quotas**, especially with countries like Indonesia, Philippines, Thailand and Malaysia.
5. 40% of the respondents citing **banking infrastructure** related impediments, highlighted movement of funds to & fro India, as major bottleneck, specifically with CLMV (Cambodia, Laos, Myanmar and Vietnam) Countries.
6. 30% of the respondents who highlighted **regulatory environment** as an issue, cited rules of origin norms as an impediment, while another 30% cited legal infrastructure / transparency in policies as a concern area. These are specific to Indonesia, Philippines and Vietnam. Malaysia, Thailand and Singapore, though generally easy for business, make an appearance here w.r.t rules of origin. These issues were largely highlighted by Auto, Chemicals & Pharmaceuticals sectors.

7. Over 30% of the respondents experiencing problems during Sales & Distribution, find related aspects of **connectivity**, logistics costs and customs practices, as another concern area. This is specifically with regard to Myanmar, Philippines, Indonesia and Vietnam, which are not having direct marine and air connectivity with India currently.
8. The respondents are divided on the effectiveness and success of India-ASEAN FTA in goods, with almost half reporting either no impact on their exports or an adverse impact. This is partly since this FTA is restricted to 'Goods' where India's manufacturing sector is not able to capitalise and partly due to lower duties offered by ASEAN to China, through the China-ASEAN FTA.
9. 35% of the respondents acknowledged that current FTA in goods has a positive impact on their **imports** into India due to duty reductions by India, which helps to reduce input costs. Remaining 65% felt that liberalized import regime has not had any impact on their business. Going forward, most companies do not foresee any adverse impact of lower import duties for products from ASEAN. The reduction in input costs is seen as an opportunity for making Indian products more competitive and hence expanding consumer demand.
10. In terms of **expectations** from a more comprehensive FTA between India and ASEAN, covering Goods, Services and Investments, which is round the corner, respondents expect that following aspects are covered :
  1. Relaxations & Flexibility in the rules of origin criteria
  2. Avoidance of Double Taxation
  3. Import duties for Indian exports to ASEAN, should match those offered to China by ASEAN
  4. To attract Inward investments from ASEAN, India needs to create the right environment for fast track clearances of projects
11. In response to question on impact of an FTA between **Regional Comprehensive Economic Partnership** countries (RCEP - a grouping of 16 countries comprising 10 ASEAN countries + Australia, China, Japan, Korea, New Zealand and India), almost half of the respondents either did not have any view or felt that there would be no impact of such an Agreement. A sizable 30% of the respondents were not able to comment on this new economic block, as it is still evolving. However Respondents do expect increase in India's GDP due to enhanced trade & investments within RCEP framework. They suggested that there should be full clarity on taxation and other regulatory compliances. A '**Single Window Clearance**', for access to all 16 countries within RCEP is also suggested for being part of the Agreement.

## Survey Profile

The present round of FICCI's **"Business Beyond Barriers"** Survey, brings out expectations of members of corporate India and drew responses from 46 Indian Companies having Business engagement with ASEAN. The survey was targeted at Companies from different sectors which have already invested or are doing business with ASEAN Countries.

Respondents to this online Survey covered sectors such as Pharmaceuticals, Automotive, Manufacturing, Plastics, Chemicals, Consulting Services, Infrastructure & Construction, Healthcare, Agriculture Products, Mining & Minerals and services.



## Survey Methodology

1. Survey was conducted during the months of July-September 2013.
2. Survey was done online for ease of response by respondents.
3. Questionnaire was created to get top of mind responses, for just 12 questions.
4. Survey covered Indian Industry's outlook on the FTAs under negotiation (Service and Investment FTA) and Industry's opinion on RCEP.
5. Issues covered were structured on variety of parameters viz. Initiating Business, Finance and Tax regime, Regulatory Environment and Sales & Distribution.
6. Responses were then analysed Sector wise & Country wise for Trade & Investments issues for ASEAN India FTA & RCEP impact, simple trends in responses were analysed.

## Section I : Findings on Trade & Investment Issues

❖ **Results of FICCI’s survey “Business Beyond Barriers” indicate following positive aspects of doing business with ASEAN Countries:**

- Investors friendly, Open & Dynamic markets
- Transparent and Business friendly policies
- Ease in starting Business
- Multiracial society open to international business
- Ease of Customs clearance less paperwork - mainly online submissions
- Less bureaucracy

The general feeling amongst the Indian Industry is that doing business with ASEAN is ‘easy’. This relates to the fact that Singapore, Malaysia & Thailand, which have 60-65% share of our trade with ASEAN and also hold majority in terms of investments, are amongst the top countries in terms of Global Ease of Doing Business Ratings.

However, there are impediments related to specific industry segments, in specific ASEAN countries, as evident from results below.

❖ **According to the Survey findings following Destinations in ASEAN are currently the most important for India’s industry:**

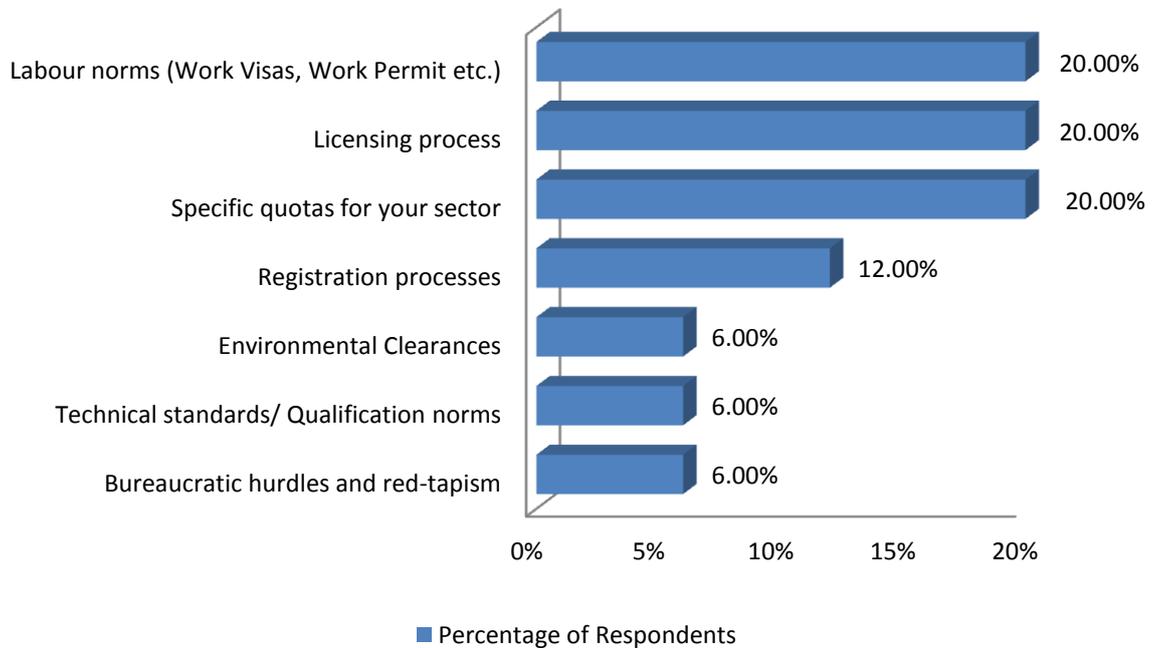
- Singapore
- Vietnam
- Malaysia
- Indonesia
- Thailand
- Philippines

**FICCI Note** : These Countries command 95% of Trade & FDI with India, among ASEAN Countries, in FY 2012-13.



The Survey indicates the following Factors which are acting as impediments in the business with specific countries in ASEAN Region:

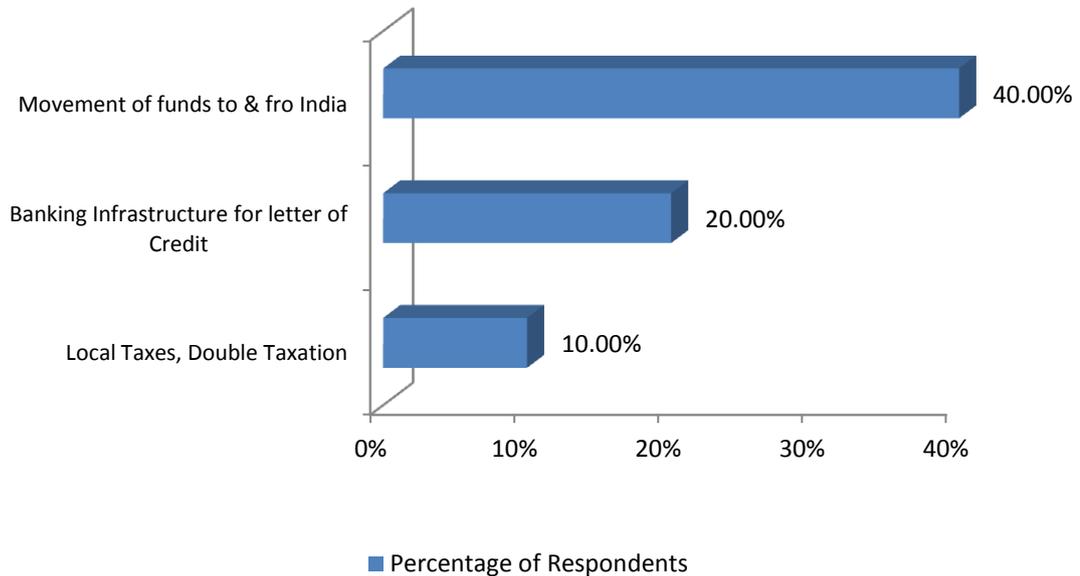
**A. Initiating Business: Key Issues**



Indicators	Sectors effected	Country
<b>Specific quotas for your sector</b>	Pharmaceutical, Automotive	Thailand,
<b>Bureaucratic hurdles and red-tapism</b>	Plastic	Philippines , Thailand
<b>Licensing process</b>	Plastic, Pharmaceutical, Banking, Insurance & Financial Services	Thailand, Malaysia
<b>Registration processes</b>	Pharmaceutical, Chemical Product	Malaysia
<b>Technical standards/ Qualification norms</b>	Automotive	
<b>Labour norms (Work Visas, Work Permit etc.)</b>	Consulting, Infrastructure & Construction, Textile, Apparel & Accessories, Banking, Insurance & Financial Services	Thailand, Vietnam, Indonesia
<b>Environmental Clearances</b>	Automotive	Malaysia

Among the respondents citing impediments in Initiating Business issues with ASEAN relate to **labour norms, licensing processes, registrations, quotas**, especially with countries like Indonesia, Philippines, Thailand and Malaysia.

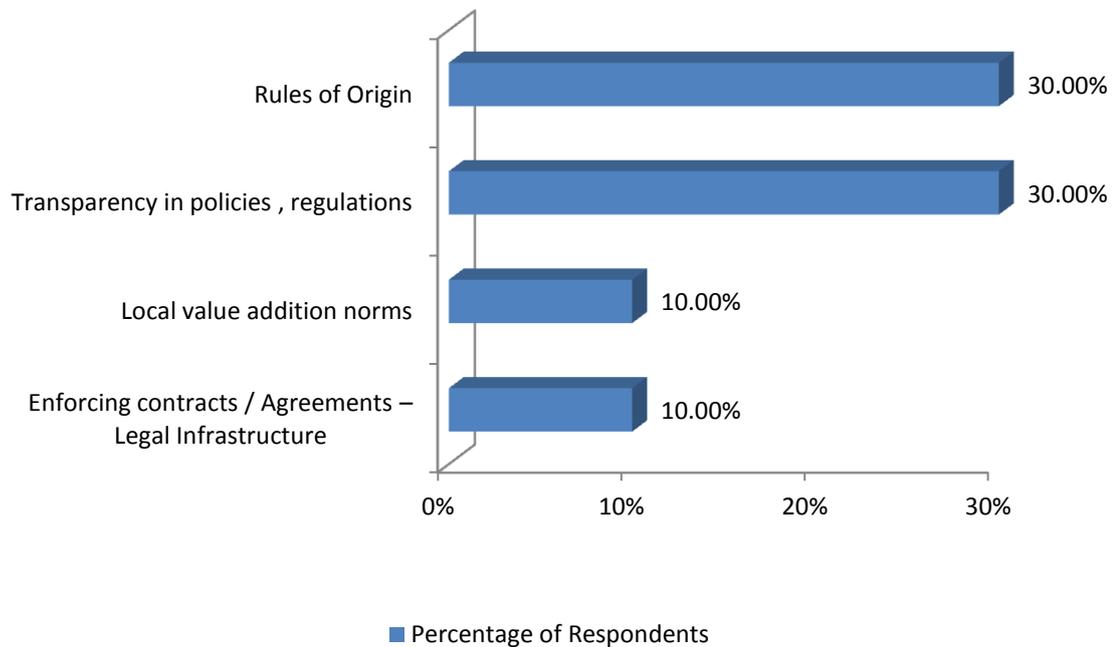
## B. Finance and Tax regime Issues :



Indicators	Sectors effected	Country
<b>Banking Infrastructure for letter of Credit</b>	Chemicals	Myanmar, Cambodia
<b>Movement of funds to &amp; fro India</b>	Consulting, Infrastructure & Construction, Automotive, Chemicals	Myanmar, Cambodia
<b>Local Taxes, Double Taxation</b>	Plastic	Thailand, Philippines

40% of the respondents citing **banking infrastructure** related issues, highlighted movement of funds to & fro India, as major bottlenecks, specifically with CLMV (Cambodia, Laos, Myanmar and Vietnam) Countries.

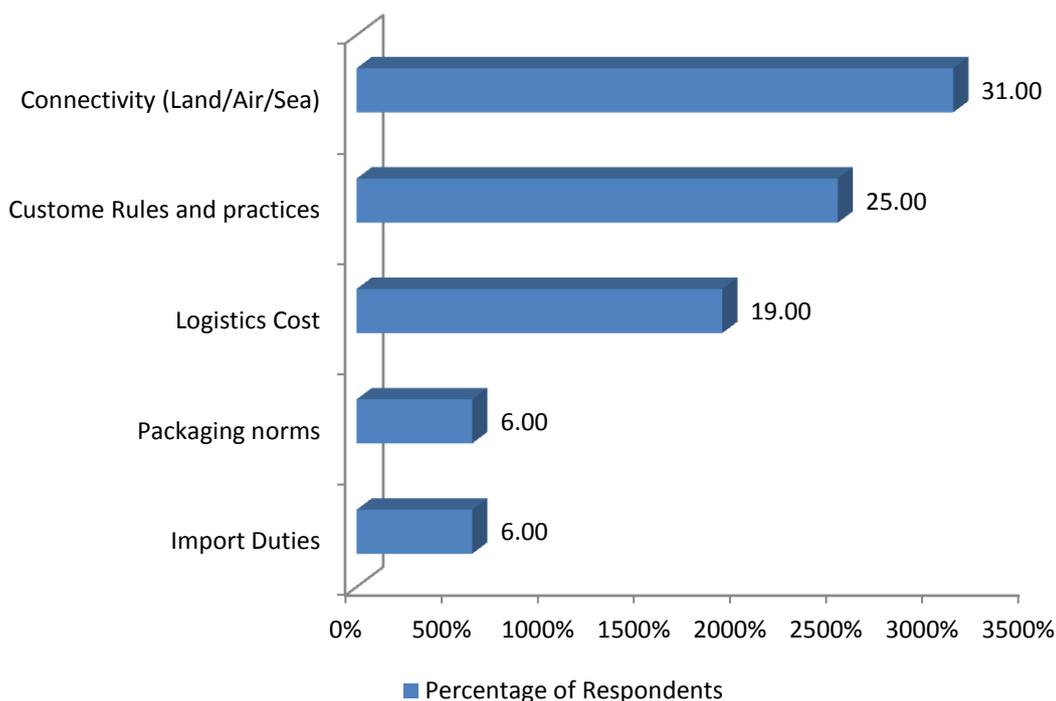
### C. Regulatory Environment Issues :



Indicators	Sectors effected	Country
<b>Transparency in policies , regulations</b>	Automotive, Plastic	Philippines
<b>Enforcing contracts / Agreements – Legal Infrastructure</b>	Others	Indonesia, Philippines, Cambodia, Lao, Myanmar, Vietnam
<b>Local value addition norms</b>	Pharmaceutical	
<b>Rules of Origin</b>	Pharmaceutical, Automotive, Chemical Product	Malaysia, Singapore, Philippines, Vietnam, Thailand

30% of the respondents who highlighted regulatory environment as an issue, cited **rules of origin norms** as an impediment, while another 30% cited **legal infrastructure / transparency** in policies as a concern area. These are specific to Indonesia, Philippines and Vietnam. Malaysia, Thailand and Singapore, though generally easy for business, make an appearance here w.r.t rules of origin. These issues were largely highlighted by Auto, Chemicals & Pharmaceuticals sectors.

#### D. Sales/Export/Import Distribution Issues:



Indicators	Sectors effected	Country
<b>Customs Rules and practices</b>	Healthcare, Plastic, Agriculture Products, Others	Myanmar, Indonesia, Vietnam
<b>Import Duties</b>	Pharmaceutical	Malaysia, Singapore, Thailand, Philippines, Vietnam
<b>Connectivity (Land/Air/Sea)</b>	Chemicals, Textile, Apparel & Accessories, Automotive, Plastic	Philippines, Indonesia, Cambodia, Vietnam, Myanmar
<b>Logistics Cost</b>	Automotive, Chemicals, Mining & Minerals	Myanmar, Indonesia, Vietnam
<b>Packaging norms</b>	Pharmaceutical	Myanmar, Vietnam

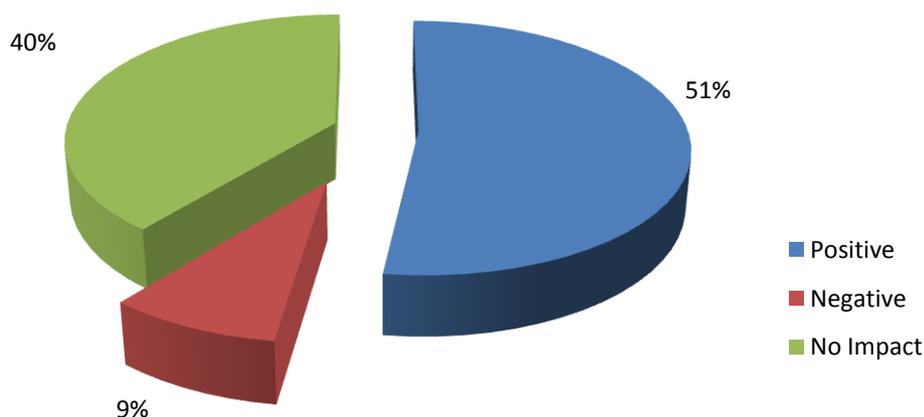
Over 30% of the respondents experiencing problems during Sales & Distribution, find related aspects of **connectivity**, logistics costs and customs practices, as another concern area. This is specifically with regard to Myanmar, Philippines, Indonesia and Vietnam, which are not having direct marine and air connectivity with India currently.

❖ **The Survey Respondents shared specific remedial actions / suggestions on issues that are most important for their business with ASEAN :**

1. Registration process for **Indian Agro Chemicals Companies** should be simplified in ASEAN Countries
2. **Incentives** from Indian government to the Exporters. E.g. FMS (**Favoured Market Scheme** for additional incentives on exports), could be extended to all 10 ASEAN countries to promote exports. Currently it is only for Cambodia, Laos & Myanmar.
3. Indian Companies expect facility to allow *largely* Indian staff for initial phases of setting up a business in any ASEAN country, till it settles down, as locally hired staff will not be able to understand the organisational and product dynamics in the start-up phase. Hence, ASEAN countries will need to **relax their norms for local v/s foreign staff** during the gestation period of a project.
4. **Philippines** - Indian parent company should be allowed to hold their product registrations, even without appointing local partners. Registrations should not be linked to local distributor or its appointment and flexibility of distribution process should be left with parent company.
5. **Indonesia** - Indonesian Government should lift ban on Imported Generics Medicines for better access to top quality and cost effective generic medicines from India. This would enable them lower their healthcare costs.
6. **Malaysia**
  - Malaysian Government should allow fast track approvals of product dossier submissions for registrations with the Health Authorities, especially for Indian Pharmaceuticals companies who eventually wish to set up manufacturing facilities or already have one in Malaysia.
  - Malaysian Government should allow access of Government Tenders to Indian Companies who have investments in Malaysia.
7. **Singapore** – India Singapore CECA should facilitate Fast track registrations for pharmaceutical products.
8. **Myanmar** - Non tariff barriers like shipping, financing and infrastructure for border trade needs to be taken care of, to enhance trade with Myanmar.

## Section II : Feedback on India-ASEAN FTA

- ❖ Respondent companies have a mixed response to the India-ASEAN FTA in 'Goods', w.r.t. its impact on their Exports with ASEAN Region and greater market access. Nearly 10% reported adverse impact due to China-ASEAN FTA wherein duties are lower.



### The Positive aspect highlighted by the Survey Respondents was:

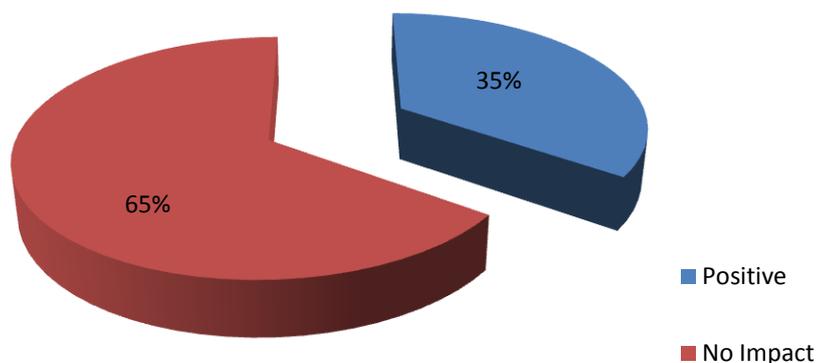
- Concessional duties on exports have enabled greater access & eased doing business

### The negative aspect highlighted was:

- China - ASEAN FTA which was signed in January 2010, is more favourable for Chinese exporters than India-ASEAN FTA under which Indian exporters are unable to qualify change in CTS code and minimum value addition.

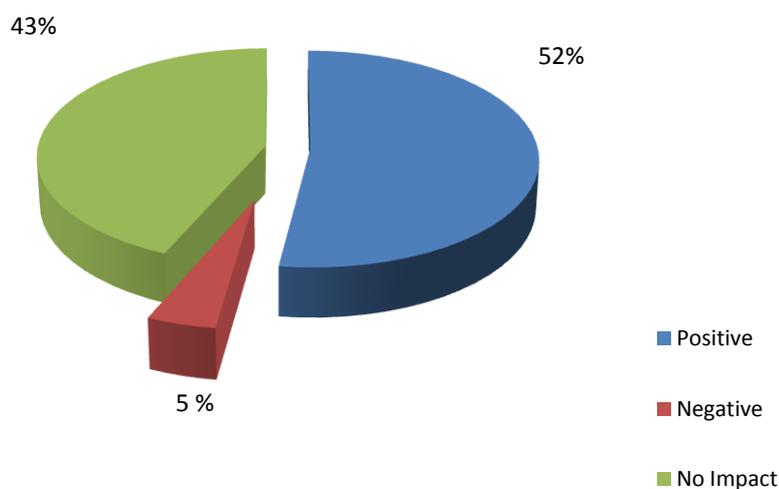
The respondents are divided on the effectiveness and success of India-ASEAN FTA in goods, with almost half reporting either no impact on their exports or an adverse impact. This is partly since this FTA is restricted to 'Goods' where India's manufacturing sector is not able to capitalise and partly due to lower duties offered by ASEAN to China, through the China-ASEAN FTA.

- ❖ In the present Survey 65% of the respondents feel that the India-ASEAN FTA in 'Goods' had no benefits due to opening up Imports from ASEAN Region. Some respondents do however report positive impact due to cheaper imports and hence reduced cost of manufacturing goods locally in India.



**The Positive aspects highlighted by the Survey Respondents were:**

- Reduction in the input costs
  - Healthy market competition
- ❖ As per the tariff reduction schedule proposed in the India-ASEAN FTA the Import duty on Products would be phased out over period of time. On this majority Indian Companies foresee either no impact or positive impact of duty reduction on Imports from ASEAN Countries in the domestic market.



### The Positive aspects shared by the Survey Respondents were:

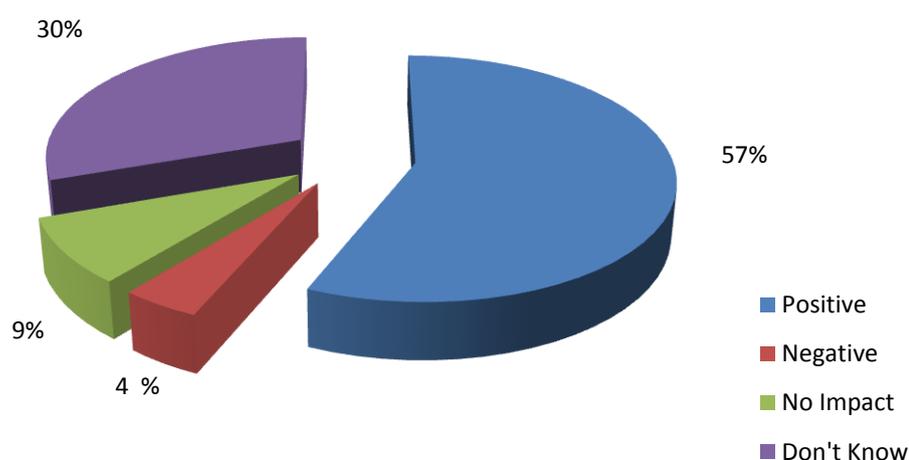
- Lower import duties for export items from India will stimulate exports
- Due to reduction in import duties and transaction costs, more competitive products will be available for Indian Market
- Reduction in import duty by ASEAN Countries will help Indian exporters to compete with China on a level playing field. Currently, there is a disadvantage of 5% between Indian and Chinese Exporters

35% of the respondents acknowledged that current FTA in goods has a positive impact on their **imports** into India due to duty reductions by India, which helps to reduce input costs. Remaining 65% felt that liberalized import regime has not had any impact on their business. Going forward, most companies do not foresee any adverse impact of lower import duties for products from ASEAN. The reduction in input costs is seen as an opportunity for making Indian products more competitive and hence expanding consumer demand.

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### Section III : Feedback on RCEP

- ❖ **Regional Comprehensive Economic Partnership (RCEP)** is growing stronger as a new grouping between 10 ASEAN countries and 6 countries with whom ASEAN has FTA's (viz. Australia, China, India, Japan, Korea and New Zealand). Majority of Indian Companies which responded to this survey foresee that there will be a positive Impact of RCEP, as this will be largest free trade block in South East and East Asia. However, a sizeable of 30% were not able to comment on this new economic block which is still evolving.



**Survey participants also shared their expectations from FTA between India and other 15 RCEP members, as below:**

1. RCEP platform should create a single market with one Tariff, which will help increase India's GDP due to enhanced Trade & Investments
2. Simplicity of tax and regulatory compliances
3. Clarity in regulations, elimination of multiple regulator registrations in each Country to be avoided through 'Single Window Clearance' suggested.

In response to question on impact of an FTA between **Regional Comprehensive Economic Partnership** countries (RCEP - a grouping of 16 countries comprising 10 ASEAN countries + Australia, China, Japan, Korea, New Zealand and India), almost half of the respondents either did not have any view or felt that there would be no impact of such an Agreement. A sizable 30% of the respondents were not able to comment on this new economic block, as it is still evolving. However Respondents do expect increase in India's GDP due to enhanced trade & investments within RCEP framework. They shared that there should be full clarity on taxation and other regulatory compliances. A '**Single Window Clearance**', for access to all 16 countries within RCEP, was also suggested for being part of the Agreement.