

## **Assessing India's Post-Pandemic Outlook on Global Engagements with Reference to ASEAN-India Free Trade Agreement (AIFTA)**

**Ishita Dutt**

Assistant Professor,

Symbiosis Centre for Management Studies, Symbiosis International (Deemed University),

ishita.dutt@scmspune.ac.in

**Anusha Goel, Iishika Saxena, Mukta Dhopeswarkar, Shraddha Mahapatra, Kashvi Pathak**

Students, Symbiosis Centre for Management Studies, Symbiosis International (Deemed University)

### **Abstract**

**Purpose of Study** - The paper aims to study the negotiation involved in the ASEAN-India Free Trade Agreement (AIFTA), against the backdrop of a rising economic nationalism in the world and also the subsequent impacts faced by India.

**Design, Methodology & Approach** - Secondary data collection method has been used to analyze the relationship between ASEAN and India. The paper is constructed based on several scholarly journals, articles, journalist opinions and commentaries on the subject matter which makes it a review based research with a descriptive outlook.

**Main Findings** - The findings specify impacts in the areas of tariff reduction commitment, trade deficit, labor-intensive and natural resource-intensive sectors that India had faced in some aspects of the negotiation. This eventually led to withdrawal from the Regional Comprehensive Economic Partnership (RCEP). It was found that the ASEAN countries will possibly refrain from doing trade with China due to the coronavirus outbreak and concerns about national security, hence allowing India to exploit the ASEAN market. A conceptual framework is proposed using five variables.

**Conclusion/Improvements** - It is concluded that India must search at trade complementarities and enforcement costs in negotiating bilateral FTAs with countries. Though India should opt for capturing key Asian markets with significant support from the West and aim for more global integrations to boost supply chains for the most pandemic affected industries, this fact cannot be denied that India will adopt a tougher stance in global engagements, considering its withdrawal from RCEP.

**Originality/Value** - The paper introduces a framework to arrive at a conclusion about India's opportunities in the international market.

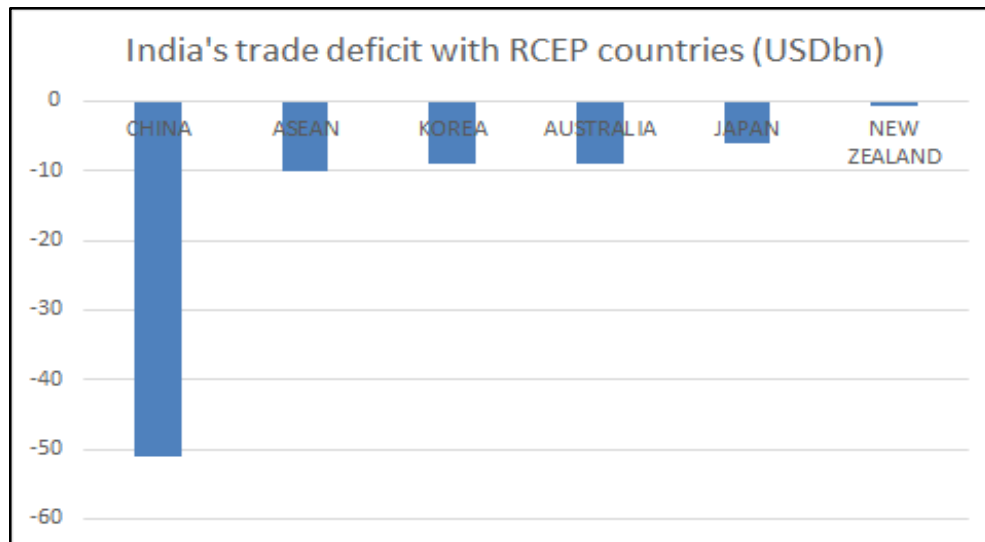
**Key Words:** ASEAN, India, pandemic, free trade agreements, economic nationalism

## **Introduction**

The initial framework of the Association of South-East Asian Nations (ASEAN) - India Free Trade Agreement was signed on October 3, 2003. The aim of the agreement was to boost trade by eliminating barriers, both tariff and non-tariff barriers. This agreement was supposedly the world's biggest trade bloc. The signatory of this agreement with the ASEAN had evoked a mixed reaction in India. While the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industries (CII) seemed to believe that there will be a positive impact on some parts of the manufacturing sector, the agreement has resulted in being a point of disadvantage for the agricultural sector, marine products, service sector, textile and garment industries, and the automotive industry as it had opened them up to massive global competitiveness.

The 2010 agreement dealt with trading in goods only. India could have further gone in for negotiation with ASEAN to create a good opportunity for the Indian service sector as well. At hand, we will discuss the aspects of the goods trade agreement.

The renewal of the agreement was followed by the launch of the Regional Comprehensive Economic Partnership (RCEP) in November 2012. It was a partnership between the ten member states of ASEAN and six other nations, namely India, Australia, New Zealand, China, Japan, and South Korea. With this partnership, India's primary concern should have been the increase in a trade deficit that would have occurred by entering into this agreement. Chinese goods are very cheap, which had a significant impact on the domestic industry of India. India already had a considerable trade deficit with China before entering into this agreement. The only reasonable observation was that the RCEP would have further widened out the trade deficit of India.



Source: Niti Aayog

**Fig 1. India's Trade Deficit with RCEP Countries**

### 1.1 Historical Background

The Association of Southeast Asian Nations (ASEAN) is a regional intergovernmental organisation established on August 8, 1967, when the founding fathers of ASEAN, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, signed the Bangkok Declaration. The company's offices are in Jakarta, Indonesia. Brunei joined ASEAN as the sixth member on January 7, 1984, and Vietnam joined as the seventh member on July 28, 1995. On July 23, 1997, Laos and Myanmar became participants. The joining of Cambodia, which was expected to happen at the same time as Laos and Myanmar, was postponed due to a political war. Cambodia became a member on April 30, 1999.

The main objectives of establishing this association are for facilitating and accelerating economic development, cultural development, and social progress, promoting regional peace, collaboration, and mutual assistance on matters of common interest in the south-east region nations.

### Objectives

1. To analyze the ASEAN-India Free Trade Agreement (AIFTA) and its subsequent impacts.
2. To propose a conceptual model for India to be adopted during post-pandemic recovery.

### Research Design

Secondary data collection method has been used from various sources such as scholarly articles, news articles, opinions and comments made by the administration as recorded by journalists, on various aspects of the negotiation. In addition, statistics from the World Bank Group on India's imports and balance of trade, along with statistics from the Food and Agricultural Organization (FAO) on coffee, vegetable oil, palm oil, pepper, vegetables and fruits and fisheries were also collated to track the disturbances and significant changes. The conceptual character of the paper dictated quite a lot of speculation and predictions to be made on the part of the researchers and hence, commentaries and opinions of eminent scholars have been the central point of research. Several news articles covering different aspects of the paper were scrutinized. Following the negative impacts in the areas of labour-intensive sectors and natural resources sector, an overview of the global protectionist measures adopted by major countries and those adopted by India have been an organization of data from research papers and news articles, along with an analysis done by the researchers. The final part of the paper is a conceptual framework developed by the researchers by taking independent and dependent variables, covering the changes in the relationship between two populous countries, i.e India and China, the attitude of ASEAN towards China and suggestions about whether India should adopt a more pronounced protectionist approach or resort to globalisation and the subsequent stance in FTAs.

### **Literature Review**

Sen, Asher, & Ramkishen (2004) investigated the current prospects and examined the future economic relationship between ASEAN and India. Their paper not only threw light on the extending political and economic interactions between ASEAN and India, but also highlighted the stagnated mindset of ASEAN elites in specific countries with respect to deepening engagement with India topped by lack of expertise about or interest in India in ASEAN universities, think tanks, and the media. They concluded that the next natural upgrading of relations to include India to make ASEAN plus Four grouping would encounter ideological, informational and other biases with an aim to hinder India from being accepted.

Hussein (2019) in his study addressed India as the top fastest and largest growing economy. He believed that the rapid economic expansion was the reason that made India the third largest economy after Japan and China. Because of this expansion India was considered to play a veto role in the Asian region. This was further backed by the future study of a Deutsche Bank estimating an increase of 6% in the Indian average gross domestic product (GDP) for the period (2006-2020) with expansion in the industrial sector, especially information technology. He also emphasised on expected demand hike for energy and services due to economic and demographic growth and would take India one step ahead in being an energy-efficient country. The study also forecasted that India would be responsible for one-fifth of energy consumption in Asia in 2030 compared with 12% in 2004 to sustain its economic growth. He concluded his study by objectifying the

underlying condition for the prospect of economic power, the need to recognise the milestones of nation development and seek better and quick alternatives to achieve them using the rising levels of learning and technological innovation.

Chachavalpongpun (2011) assessed the Post-Cold War world and wrote about how the Southeast Asian nations braced themselves for a new international order after the fall of the USSR symbolizing the demolishment of the communist ideology. the nations under the US as the superpower, closely followed by an unending rise of China adopted a strategy to connect with more superpowers in the region. At the same time in 1991, the then Indian Prime Minister P.V. Narasimha Rao laid out a foreign policy known as the 'Look East' policy, by subtly aligning the country towards more competition and thus attain recognition in the Southeast Asian region.

India got the much needed jumpstart to align towards Southeast Asian interests when it was made a sectoral dialogue partner in 1992 by ASEAN. In 1995, it was invited by ASEAN to become a full dialogue partner and eventually was inducted in the Asian Regional Forum (ARF), a year later. India served a key interest of ASEAN - since the USA was losing its presence in the international sphere, they were worried that China's rise to domination would go unchecked. Thus, ASEAN began to 'look west' towards India. After the conclusion of the AIFTA, total trade of India-ASEAN rose from \$2.9 billion in 1993 to \$47.5 billion in 2008. The alliance has a combined GDP of \$2.75 trillion. However, there have been more issues in concluding the AIFTA rather than the ASEAN-China FTA as stated by some ASEAN leaders. This paved roots mainly owing to the fact that both sides were reluctant to let go of the protectionist attitude despite lacking economic structural reforms. The fear of their domestic market being flooded by a business community of cheap imports stayed heightened.

In addition to India's diplomacy in the international arena, India's power politics in Southeast Asia and ASEAN has mainly looked west towards India to counterbalance China's rising power. While some Indian policymakers believe that cooperative and healthy ties can be built with China, others view the Dragon as a threat. The latter has been even more enhanced now with the recent border attacks by China. China also portrayed India to be a competitor and threat to the influence that it itself has in the Southeast Asian region.

The observation that despite entering into numerous trade pacts with individual ASEAN nations, India has majorly faced disappointment in implementation of terms raised the thought if India proactively engages in execution of such pacts, it can help build a more credible picture of India in Southeast Asia. India can further extend the 'Look East' policy towards the areas where India has a comparative advantage over democracy, human resource development and culture. The Sino-Indian ties should also not be looked at as a constant power struggle ending in a zero-sum game.

Rather, India should aim to cooperate with China to achieve its interests in the region, through multilateral forums which will lead to India prospering with a new power.

Francis (2011) studied India and its economic relationship with the rest ten members of ASEAN and how it brought in significant changes in the ASEAN-India Free Trade Agreement (AIFTA) which came into force on 1st January 2010. The trade bloc members had increased access to the Indian market, which had an adverse effect on the agricultural sector including the small and medium enterprises involved in food processing or other agricultural/ dairy products, few intermediate goods, and small manufactured products. The core reason was India's tariff reduction commitment; India was facing huge trade deficits. Though import liberalization gave the opportunity to various multinational companies (MNCs) to join hands with the Indian manufacturing sector, mainly transport equipment, machinery, iron and steel industries. The FTA neglected major parts of India's domestic market like the agricultural and service sector, also few other segments in the manufacturing sector. In Conclusion the employment and livelihood issues became more challenging for India since the economic crisis of 2008.

## **Findings and Discussions**

### **Aspects of the Negotiation**

While it is believed that ASEAN-India FTA has only benefits attached to it, some studies show that the agreement has resulted and also will result in a severe negative impact on the Indian economy. The underlying reasons behind these concerns were the negotiations in the agreement. FTAs were entered into by nations driven by foreign-policy aspirations in the first place and in order to attain the benefit of doubt along with the lack of proper authorities, justifications mentioned in the agreements were all too often vague, trivial and muddled, and lacked relevance to commercial realities and the economic nuts and bolts of trade agreements. It was due to these loose holes the harmony between the multilateral and the regional process along with the increase of welfare that any participating country was considered as the main focus since a lot of disparities were taking place.

Due to the Most Favoured Nation (MFN) tariffs, scholars called FTAs as the termites in the trading system which will lead to an additional burden of costs. The MFN tariffs were considered to be inherently discriminatory and were believed to be brought to nil. The agreement had a complex framework with stringent rules in respect to administrative rules, policies and rules of origins. This was questioned to result in the increasing burden of doing business on the firms especially small and medium due to the dire want for experiencing the cost benefit effect under the multiple Rules of Origin (ROOs).

Some studies have shown that in order to facilitate market access and boost healthy competition there is an urgent need for improved transparency in the domestic laws and regulations especially in the controlled economies. It was because of this need that the immediate requirement of provision for non-border regulatory corporations was asked for with generous and simple Rules of Origin (ROO). It was believed that the negotiations made regarding the reduction in tariff on majority of the traded products will allow the two regions to increase the market access, but the benefits and increase in market access would weigh more with ASEAN nations with respect to Indian market, whereas India will comparatively not experience much of an increase in market access to ASEAN. The fact that ASEAN countries' economies were largely export driven and possess high Export-to-GDP ratios would look eagerly towards India's expensive domestic market as home for their exports.

Among the major safeguard measures, there was no stringent clause on safeguarding the nation from a demand-supply imbalance that may result in exploitation of the domestic markets and an unmanageable trade deficit. India, already suffering from supply side issues due to low level of infrastructure, technology should have focused on this clause.

India already had an increasing trade deficit with ASEAN which instilled the fear that tariff liberalization and rising imports would possess huge threats to several domestic industries, especially the plantation sector, marine products, and manufacturing industries. ASEAN economies were considered to be a dominant exporter of light manufacturing products and had competitive tariff rates that would increase India's difficulty in gaining access to the industry market due to lack of infrastructure and competitive advantages.

According to the FTA and Liberalisation, rice, dairy, sugar, tobacco, vegetable oil and cotton and leather producing economies ASEAN may be experiencing increases in exports of cotton and leather goods to India because of cheaper prices, better quality, and extreme harm to the domestic dairy sector. Given that India's agriculture and dairy farm sectors control the economy, the government should have proposed a provision to shut the economy's doors to some types of goods during the negotiations.

The deliberations didn't find favour with the Chief Minister of Kerala, V.S. Achuthanandan, who was concerned that the agreement would bring down the production in the domestic economy, antagonistically affecting the farmers and at last the economy (Rajan and Murali, 2012). Kerala being a significant exporter of plantation items will confront extreme rivalry from imported coffee, fish and rubber.

Kerala previously encountered similar issues of cheap imports of palm oil and coconuts flooding its market as a consequence of the South Asia Free Trade Agreement (SAFTA) of 2006. India was lacking in preparation during the SAFTA which led to a steady tension on the economy since the

agreement supported north-south as opposed to south-south trade. Researchers and specialists accepted that the Government of India should have the option to adequately reallocate a portion of the wealth to those businesses who experience the ill effects of the expanded rivalry with ASEAN markets to reduce the losses that emerge from the initial trade phases of exchange else it would not be viewed as valuable for the economy. The arrangements are outlined in such a way that if India doesn't zero in on the commodity groups that are of most extreme significance to the ASEAN to expand the exports, else it would be a disappointment for the country.

The agreement, if would have endorsed by India, would have hampered the economic development since the capacity to redo the trade policies as per the time requirements and necessities, would have been lost and India would have been a casualty of Chinese control when everything small to the now crucially needed oximeters from China are flooding market, occupying the space for manufacturers at home. A few scholars had opposing views and accepted that the deficit in trade will not be the lone focal point through which FTA's ought to be judged. Opening up the market and diminishing tariffs would profit the buyers and increment exports and future investment flows. (Frieden and Rogowski, 2008)

The choice of not joining RCEP would hinder India's endeavours to expand its integration into regional and global value chains, as preferential and comprehensive agreements encourage investments and cultivate the development of value chains. India's cooperation in the RCEP might have naturally extended its Act East and Act Far East strategies. In addition, India's South East Asian and Australian allies required India to join RCEP in order to balance China. As a result of trade war, China can easily be withdrawn by India, which is deemed vulnerable. If India wishes to make 'Make in India' a global success, then it must play a constructive role in being part of India's value and supply chain, which starts and ends.

### **Tariff Reduction Commitment**

In this agreement, the member nations are to maintain a non-tariff measure on goods imported from other member countries of the FTA. Tariff reduction commitment was made on the basis of a country-specific schedule. Earlier the countries were following through with Most Favored Nation (MFN) tariff levels. Under Normal Track-1 (NT-1) a set of products were listed for tariff elimination by 2013 and by 2016 under Normal Track-2 (NT-2) listed products will undergo tariff reduction.

Normal Track: the procedure under this track was to reduce and subsequently eliminate the applied MFN. There are two subcategories, namely, Normal Track-1 (NT-1) and Normal Track-2 (NT-2). The only difference between the two is the implementation period.



Then we have a Sensitive Track (ST) and Special Product list for which tariffs are reduced at an even slower pace. There is also an Exclusion list of products which will face no tariff reduction commitment changes.

Countries	Tariff Lines at HS 6 Digit	Normal Track 1	Normal Track 2	Special Track	Exclusion list
Brunei	20	20	0	0	0
Cambodia	20	20	0	0	0
India	20	7	0	0	13
Indonesia	20	7	0	1	12
Laos	20	18	0	2	0
Malaysia	20	5	2	0	13
Myanmar	20	19	0	1	0
Philippines	20	8	1	2	9
Thailand	20	2	0	2	16
Vietnam	20	9	11	0	11

Source: Niti Aayog, 2010, (ASEAN- India Goods Trade Agreement)

### Table 1 Tariff Lines Tracks

India had eliminated tariff lines on 75% of 12000 tariff lines, and India had kept 1800 of them on sensitive track. Thus, India kept over 10% of their tariff lines in exclusion. Philippines, Myanmar, Thailand, Vietnam and Brunei kept more tariff lines under exclusion compared to India after the 2010 agreement.

### 5.3 Trade Deficit

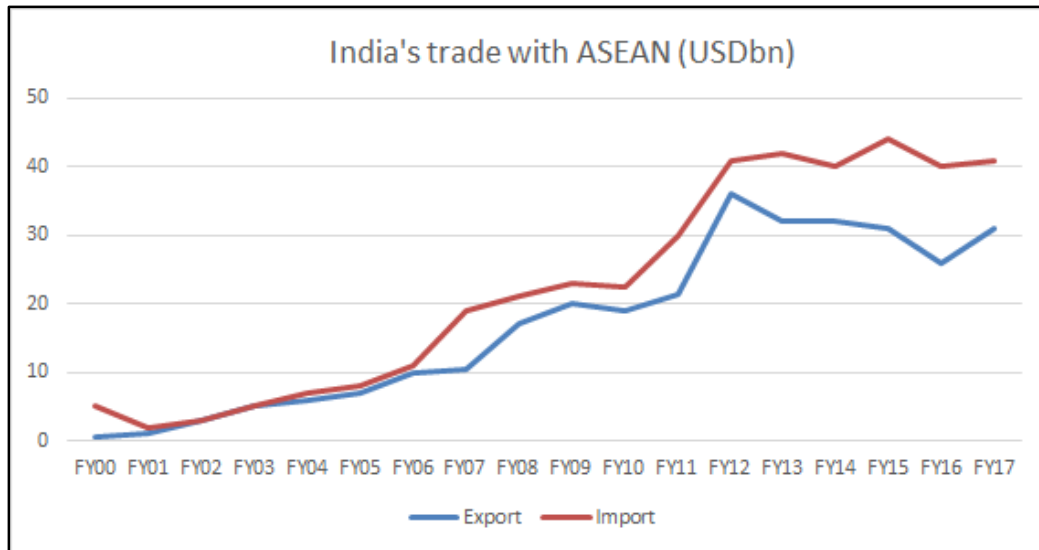
Trade deficit has been visible in India since 1980, reason being the strong import growth rate, particularly of waxes and oil, pearls, precious stones, gems and jewelry and mineral fuels. Significant trade deficits are mainly recorded with China, Saudi Arabia, Indonesia, Iraq and Switzerland.



Source: Trading Economics- Balance of Trade Statistics

**Fig 2 India- Indonesia Balance of Trade**

Trade records exhibit that from the year 2011 to 2017, the trade deficit increased from about \$50 billion to \$70 billion for India. This agreement worked in favor of the ASEAN member states even though the trade volumes increased along with the trade deficit. Trade balance had worsened in 13 out of 21 sectors of the Indian market, especially in Chemicals, Minerals, Plastics, Leather, Textiles, Gems, and Jewellery in terms of exports.



Source: Statista - Value of Indian Trade with ASEAN countries

### **Fig 3 India's Trade with ASEAN**

#### **Labour Intensive Sectors and Natural Resource Based Sector**

Most of the ASEAN countries are exporting countries with products like rubber, marine products, plantation crops, etc. Their products are cheap because of cheap labor, low-interest rates, favorable government policies, etc. India is a big market, and its domestic industries are not competitive due to tax complexities, high-interest rates, difficulty in doing business, etc. So after the FTA, ASEAN products have become cheaper due to low tariff rates and are harming India's domestic agriculture and farmers.

Indian textile products were facing immense competition from countries like Indonesia, Vietnam, etc., and this FTA had only exacerbated it. India was running a deficit in trade with ASEAN. One crucial product that India imports from ASEAN was palm oil. Indonesia was the major player here. The second most important item on India's import list is the edible oil which also was a significant factor in their overall trade deficit. Now ideally, India should have tried and encouraged domestic farmers to take up the cultivation of edible oils as it is indirectly related to India's food security. However, it had become complicated after this FTA.

Main products exported by India to the ASEAN markets include- cereals, fruits and vegetables, medicinal goods, mineral fuel, salt, sulphur wheat, tobacco, organic chemicals, iron and steel, copper, electrical and electronic devices, and machinery. While, India imports- Mineral fuels, animal and vegetable fats, pesticides, pharmaceutical products, rubber products, wood products, iron and steel, wearing apparel, electrical and electronic equipment, machinery, ships, boats, and floating structures, optical and photographic equipment, and musical instruments from the ASEAN region. The implementation of the trade-in goods agreement has led to granting of duty-free entry for most of the products mentioned, to the markets of the partner countries in India as well as in the ASEAN region. (Sikdar & Nag, 2011)

India displayed comparative advantage in several commodities, such as, tea, cotton, rice, oil meals and tobacco. India faced rivalry from ASEAN member states in spices, coffee and marine products at the same time India did not have comparative advantage in fruit and vegetable export. India was in trouble because of their tariff reduction commitment policy as ASEAN countries continued to gain higher market shares in India. This emphasized on the need for increase in competitiveness of agricultural commodities exported to ASEAN. India also faced a crisis in the gems and jewelry sector by losing its position as the top exporter in the market after a dramatic rise in India's petroleum exports after 2002.

India's food sovereignty was at stake. Opening up to the market led to its dependency on imports, also due to their tariff reduction commitments; it gave them significant access to the domestic

market. India's superior products like palm oil, coffee, black tea, and pepper initially were impacted with a 3% to 5% tariff drop benefitting the ASEAN member states.

### **Palm Oil**

Import duties were cut down by the Indian government on refined palm oil from 50 percent to 45 percent and on crude palm oil from 40 percent to 37.5 percent under the ASEAN agreement and the India-Malaysia Competition Economic Cooperation Agreement (IMCECA). It impacted the Oil Palm India and Plantation Corporation of Kerala. Coconut farmers expressed their unease for the prevailing situation claiming that it will become hard for them to survive in the domestic market if the cheap palm oil keeps flooding the market. It turned out to be exactly what was predicted of the situation. While the plantation sector, mainly tea and rubber plantations labourers received a wage hike, those working in the palm oil refining industry received zero increase. This industry suffered a loss of Rs.10 Crore due to price fluctuation. When these wages weren't revised, the labour unions of Kerala went on strike protesting against the FTA (Veeramani & Saini, 2010).

### **Unemployment**

Tariff reduction and its elimination under this agreement disrupted farmers' hold on the domestic market as well as minimized their negotiation power and also, leading to a heavy fall in domestic prices due to the hefty supply of agricultural products. This indicates a heavy disturbance created in the livelihood of the rural population. FTA gave way to MNCs setting their foot into the Indian market making it difficult for small farmers to sell their products. The shift towards enhanced integration in the agricultural products value chain led to a consequential loss of income for farmers as well as a reduction in their food security.

This trade agreement adversely impacted the pace of life of millions of fishermen specifically in Kerala. Cheap imports had cut down the local produce. Over 177 fish species were imported under reduced tariff into Kerala, despite the inclusion of few fish varieties in the negative trade list, there were availability of similar fish varieties in the ASEAN member states. This led Kerala to become a dumping ground for surplus imports from the ASEAN member states. (The Hindu)

In the Indian textile industry, a specific case of Kerala, 35 private textile factories were shut down due to losses coming from the signing of the FTA, leaving four other private textile companies at the verge of shutting down, reason being the high production cost, increase in cotton price in the domestic market. This was a major economic crisis for India. The textile industry is one of the largest sectors in terms of employment. The central government had agreed in the FTA to import 48 products without duty which included the readymade garment, yarn, and fibres used in textile production which led to the shutting down of 230 mills in Tamil Nadu, the hub of textile production. (Wazir, 2016)

## **Rise of Economic Nationalism**

Economic nationalism can be understood as an ideology that favors domestic capital formation, control of economy and various state interventions over market mechanisms.

Since the financial crisis of 2007-08, the world has been showing a protectionist streak with 7000 trade measure restrictions by 60 countries, with the United States and European Union leading the list. The global tariffs have gone up to \$400 billion since then (Jones, 2017). The other countries that had adopted protectionist measures were India, Argentina, Russia and Japan. Countries that liberalized trade since the crisis have been Saudi Arabia, Tunisia and Brazil. In 2016, the most number of trade restrictions were introduced at 61%. This was the same year when Donald Trump was elected as the US President. The President hosted the 'Made in America' event at the White House, where he spoke about producing goods closer to home. One of the most important reasons that Trump won the election was the growing nationalism especially towards the economy towards which America has been leaning for the last 4 years after President Trump's election.

Covid-19 gave rise to protectionist policies that have stepped up in the last few years as a result of economic nationalism. Governments in industrialised economies, for example in the USA and its travel ban and tariffs, have grown more nationalistic in relation to immigration and commerce. In their economic policies, for instance India has adopted policies that provide stimulus for domestic manufacturing, and policymakers in emerging markets have become more nationalist. According to Antonio Ortiz-Mena (2020) a few nations, such as France, India and the United Kingdom, were limiting the sale of those drugs, while France was participating in what was marked as vaccine nationalism. The acquisitions of 10 percent or more foreign shares in the companies listed in the EU was reviewed by France and Italy. The US had already used Section 232 of the 1962 Trade Expansion Act to ban aluminium and steel imports and sought to enforce trading sanctions on Mexico prior to the COVID-19 scourge.

### **5.6 Economic Nationalism in India**

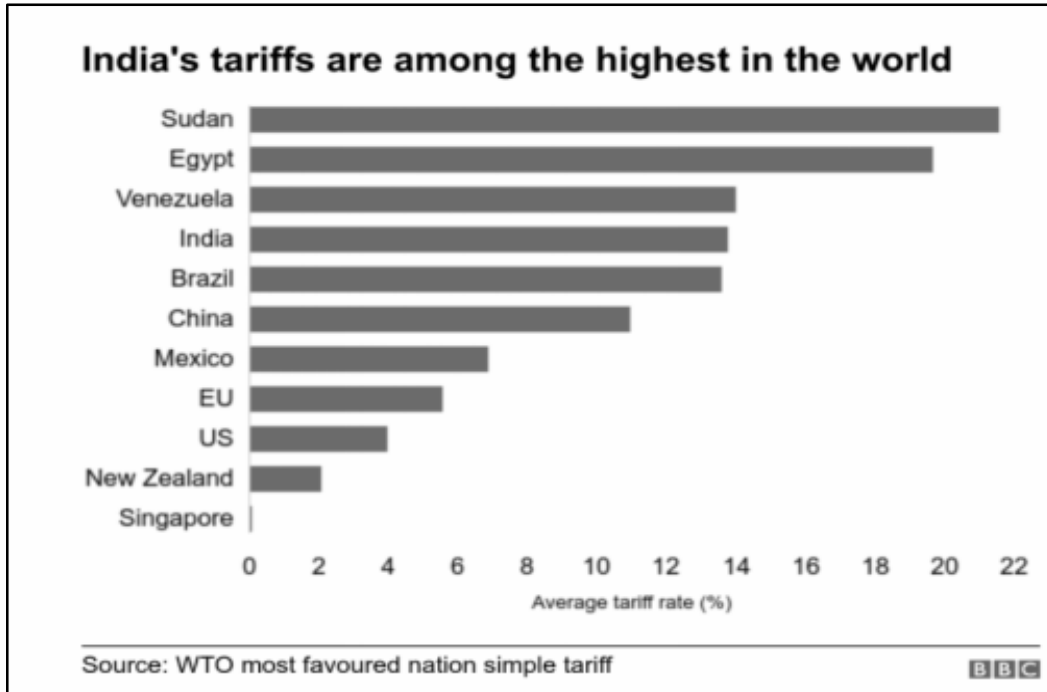
In India, Prime Minister Narendra Modi urged citizens to follow 'Vocal for local' meaning to not just use the domestically made products, but also to promote them. The Prime Minister has launched various initiatives to promote our domestic industry which started with the Make in India initiative. The Make in India initiative was launched in September, 2014 with a primary goal of encouraging domestic companies as well as multinational companies to manufacture their products within the country. The main objective of this initiative was to increase job opportunities which will lead to more employment, promotion of foreign direct investments in India, protect intellectual property and enhance skill development. It also promoted sustainable development by phrasing the slogan "zero defect zero effect". This meant imposing high manufacturing standards while minimizing environmental and ecological impact.

On 4th November, 2019 India chose to quit the RCEP (Regional Comprehensive Economic Partnership) after effectively partaking in the negotiations that went on for 29 rounds and went for over a long time since starting in 2013. The RCEP trade pact was meant to be the world's largest trade pact which was between 10 members of ASEAN and 6 other countries namely- China, Japan, India, South Korea, New Zealand and Australia. The main objective of this agreement was to lower the trade barriers such as import duties, tariffs, and other taxes in order to promote foreign trade and unrestricted market access for the trade of goods and services across these countries. Its main aim was achieving a comprehensive and mutually beneficial economic partnership without overlapping bilateral or multilateral agreements (Mridusmita, 2019).

However, India opted out of this agreement as there were various concerns which were not addressed and mainly because it would have an adverse impact on the manufacturing and the agriculture sector. More than half of our population have agriculture as their main occupation and are dependent on agriculture for their livelihood. The elimination of tariffs and taxes would expose the agricultural sector to foreign competition and would thus, impact the domestic production and employment. The same goes for the dairy sector as well. This agreement would have also widened India's trade deficit which was already huge pertaining to previous foreign trade agreements with ASEAN and other countries. However, India must focus on promoting reforms to make manufacturing and agriculture more competitive, so that India is capable of taking advantage of such opportunities in the future and carry out a strategy to acquire a deeper access to major global markets.

Another step towards making India independent was the banning of Chinese goods. Due to the ban on the Chinese goods, India initially during the COVID pandemic faced a shortage of Personal Protective Equipment (PPE) kits, but in just 2 months India became the largest producer of PPE kits as our Prime Minister exhorted Indians to buy and produce local goods. This all became a part of the "Atmanirbhar Bharat" which means a self-reliant India. This initiative was announced officially on 12th May, 2020. In July, 2020, under this initiative, India saw its own-Made in India 5G network initiated by Reliance Jio. They have built this 5G network from square one and will launch an elite 5G network utilizing 100% local technologies and advances. In August 2020, the defence ministry reported the prohibition on 101 import defence items. The 101 guard things included Artillery firearms, attack rifles, light battle helicopters, corvettes, radars, wheeled Armored Fighting Vehicles (AFVs), transport airplanes, and other high innovation weapons. This resolution will offer an opportunity to the Indian defence industry to produce the items by utilizing their own innovation, own plan and improvement abilities or embracing the advances created and planned by Defense Research and Development Organization (DRDO) to meet the necessities of the Armed Forces. They have made a different spending head of Rs 52,000 crore for homegrown

capital acquisition in the current monetary year to help the defence business in the nation (Bhalla, 2020).



Source : BBC News - WTO Most Favoured Nation Simple Tariff

**Fig 4 Most Favoured Nation Tariffs**

Fig 4 shows that India’s tariffs are fourth highest in the world. India has always followed protectionism to protect its domestic industries from foreign competition. The government has also provided heavy subsidies to farmers for export promotion and increase in low cost production. All these measures and initiatives have been taken up by the government for the growth and flourishing of our economy. However, trade expansion and agreements are also necessary for the growth and development of our nation.

India is acquainted with the fact that by withdrawing from the grouping and agreements, it would be losing a large market in the Asia-Pacific region (Gaur, 2020). Maintaining India’s trade balance requires optimistic use of trade opportunities in the Southeast Asian markets. India needs to revamp its domestic policies and strengthen the infrastructure facilities for attracting business to India. Numerous changes are required in India’s foreign trade agreements followed by enhancing the efficiency of various sectors and scale economies to face the competition that they would be getting from the South East Asian market. India would miss the opportunity again if the domestic

reforms are not refined to consolidate itself with such a dynamic region as it did with ASEAN earlier.

Economic cooperation can be strengthened through regional value chains by expanding market access among nations. There will be enormous benefits of merging with regional value chains such as reduced cost of production, manufacturing and trading for the participating countries.

### **Discussions on Post-Pandemic ASEAN and India**

Traces of an increase in geopolitical instability which has been and will continue affecting the relationships of the members of ASEAN have taken lots of consideration. The important examples are the claims of China in the South China Sea and on-going tensions with the most populous economic powers, i.e. India and China. Poor regional internet infrastructure will affect the regional digital economy because technology adoption differs greatly among ASEAN countries. However, the silver lining is that most of the ASEAN countries are home to the fastest-growing population of internet users and this can stimulate new users to use tech most post-pandemic (Mahmood, 2008).

As the world edges towards multi-polarity in each passing year in the form of some powerful nations like the US, UK, Russia, and China, the pandemic has changed the face of the world forever. Post-pandemic, the US will continue to be the central power of the world, despite China's consistent increase in export markets and export dominance to rise to global domination. Thus, India has great opportunities in capturing the world's manufacturing market as the west will be in favor of India.

Among the other ASEAN countries, the Philippines and Vietnam will continue having issues over the South China Sea (Iwamoto, 2020). Two factors that might cause a rift between ASEAN and China that may serve as an opportunity for India to capture the ASEAN market and negotiate more treaties - One, regional security system over the South China Sea which has led the Philippines, Indonesia, Malaysia, and Vietnam to have an unfavorable opinion towards China. This will help India to have stronger political and business alignments with these ASEAN nations. Second, the growing displeasure or anger amongst citizens of ASEAN countries towards China due to the COVID crisis will shift the ASEAN countries' focus on keeping people healthy, minimizing economic losses, and will prefer to shift towards the US for borrowing due to the bad sentiments towards China.

There are manners by which the pandemic may build integration within the region, which may lead organizations in Asia to support sourcing materials closer to home. Indeed, even before the coronavirus hit, there had been a pattern towards localization as organizations looked to convey goods quicker to end consumers. This drive is presently liable to increment, with the interruption



featuring the weaknesses of long and complex value chains. Lately, rising labor costs in China have brought about organizations both inside and outside the district looking to other Asian manufacturing areas. This has brought about nations, for example, Vietnam drawing in more foreign investment in production, which has helped exports (Rao,2020).

As per the secretary-general of the Organization for Economic Cooperation and Development (OECD), Angel Gurría, the current development figures estimated for the worldwide economy post-pandemic at 1.5 percent, is by all accounts excessively idealistic. The Indo-Pacific region is largely affected given its resource-rich geographies, assertive geopolitical character, and an unparalleled socio-economic vibrancy.

The Indo-Pacific gained a huge advantage from the brewing trade war tensions between the US and China, which led to firms shifting their production bases from China and Taiwan to Southeast Asian countries. With China being the focal point, to countries like India, Vietnam, South Africa, Russia, and the United States, they all have seen unprecedented disruptions in their supply chains of even essential consumer goods, medical equipment, and pharmaceuticals. India, for instance, also imports intermediate goods from China which later become the input content of the country's exports. This has largely been affected and so is the domestic production due to the nation-wide lockdown implemented on March 25, 2020. China, which has now recovered from the COVID-19 crisis has begun focusing on its manufacturing sector (Ahmed & Gupta, 2020). In a report by UNCTAD, India is one of the 15 most affected countries in the COVID 19 pandemic.

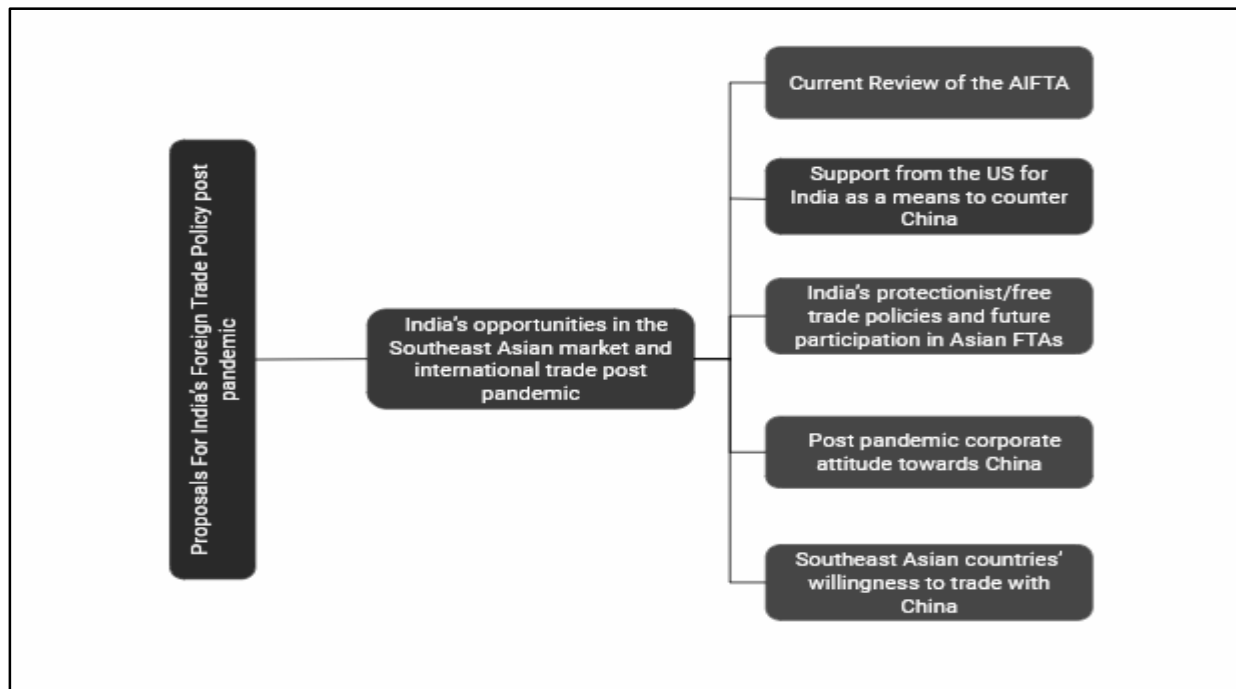
### **India, ASEAN and Prospects of Free Trade Agreements**

As India reviews the continuation of the ASEAN trade pact, the main issue is due to India's concerns not being addressed by ASEAN about certain asymmetries in the treaty, India has faced the greatest drawback in the form of a trade deficit of almost \$1.6 billion in 2019-20. India may exit some of the FTAs due to some more drawbacks as analysed by the ministries. There has been an import surge in several products such as agarbattis to air-conditioners and TV sets and the government mainly blames it on the low-duty mechanism (Paul & Barua, 2020). The government also accused China of routing goods through Hong Kong and New Zealand to enter into India and fired back that there were many barriers of entry subsequently restricting Indian goods. Thus, India pulled back from RCEP arrangements in November a year ago in light of worries about its developing trade imbalance with China. Indian Prime Minister Narendra Modi has settled that, "the current form of the RCEP understanding doesn't totally reflect the fundamental soul and the core principles settled for the RCEP. It similarly doesn't address pleasantly India's outstanding issues and stresses in such a situation. The situation compounded after the Indian army said in any event 20 of its soldiers had been butchered in clashes with Chinese troopers at a disputed location on the outskirts between the two countries in June (Rahman, 2020).

Probably the most apparent change in the pandemic outbreak is the steady disruption of global value chains (GVCs). India has been consistently adopting protectionist measures to indigenize production as much as possible. However, post-pandemic it will be imperative that GVCs are utilised by key sectors which were the most affected, mainly, precision instruments, machinery, automotive and communication equipment. The import content is around 26% in Indian manufacturing exports, which indicates a significant dependency of imported inputs. Albeit, domestic manufacturing requires complementary domestic and imported inputs, how much can any protectionist view, for example, focusing on local outsourcing, help the nation rebound is a significant question from a policy standpoint (Paul & Barua, 2020). The “Atma-Nirbhar Bharat Abhiyaan,” or “Atma-Nirbhar Bharat Abhiyaan,” was a key strategy that was adopted in India as a significant drive for manufacturing indigenization (i.e. self-reliant India mission). The Atma-Nirbhar Bharat Abhiyaan's most critical attribute is that India will not separate itself from the rest of the world or embrace protectionism. India will recognise and fund projects and units with the ability to scale up and become internationally competitive. This procedure is connected to the Prime Minister's vision of confident India, with an accentuation on decreasing imports and expanding exports. The speculation is that before the nineties, the territories of which we were independent in manufacturing and at present the zones where we can be self-sufficient, are the zones to be chosen first.

For instance, India has pitched itself as a rising phenomenon for manufacturing and of arms and ammunition to various nations and zones of constructing manufacturing abilities, such as portable gadgets and electronics. India has also found a way to protect its manufacturing prowess from foreign competition. This move is prevalent in the nation's recent policy to boycott 59 Chinese applications. Considering that this move could potentially be labelled as an Indian counter in the wake of its border skirmish with China, it has likewise paved the way for Indian software engineers to use and make a successful and versatile digital environment that will guarantee India as a contender in the arena (Patel et.al, 2020).

## Proposed Conceptual Framework for India's Foreign Trade Policy



**Fig 5 Conceptual Model Illustrating India's FTP post Pandemic Situation**

The researchers propose a conceptual model to study the international trade environment for India and subsequently make suggestions for furthering India's foreign trade and actions in the international trade field. In the above model, the independent variables are that of:

- (i) Current Review of the AIFTA
- (ii) Support from the US for India, as a means to counter China
- (iii) India's protectionist/free trade policies and future participation in Asian FTAs
- (iv) Post pandemic corporate attitude towards China
- (v) Southeast Asian countries' willingness to trade with China

As such the dependent variable is India's opportunities in the Southeast Asian market and international trade post pandemic, which will be dependent on the various independent variables listed above. After studying each independent variable, it has been stated how each variable connects with the opportunities and tremendous potential that India can utilize in the international market, as a result of these variables. The explanations are as follows:

**Current Review of the AIFTA** - On 29th August, 2020, the 17th ASEAN-India Economic Ministers Consultation summit was held virtually where ministers from the 10 ASEAN countries reviewed the FTA in order to make it more user-friendly, streamlined and trade-facilitative for businesses. The Indian Minister of Commerce and Industry, Piyush Goyal co-chaired the review summit with Tran Truan Anh, the Minister of Trade and Industry of Vietnam. Goyal asserted the removal of non-tariff barriers and the liberalisation of ASEAN markets for the entry of Indian goods. However, in recent developments, it was found that the other Southeast Asian nations were hesitant to sit down with the specifics of the negotiations. For people who had knowledge of the matter, one pivotal reason was that most ASEAN countries were eager to conclude the RCEP deliberations, which could have become a major Asian FTA, out of which India walked out of, in 2019. A key reason as per the people who had knowledge of the matter, was that most ASEAN countries are keen to first complete the RCEP deal which is a mega Asian FTA, out of which India walked in 2019. Following up on the virtual meeting of ASEAN-India economic ministers, India wrote to ASEAN Secretary General Lim Jock Hoi with Trade Secretary Anup Wadhawan to stress the urgency. In a letter dated September 14, the Trade Secretary mentioned that the scoping exercise should begin as soon as possible so that it can be done in time for the ASEAN-India Leaders' Summit in November. The relative value accorded to the review mechanism by ASEAN ministers was crystallised when, for the first time in recent years, opposing statements were issued by both sides. Usually, as was seen in 2019 and earlier years, a document approved by the economic ministers of ASEAN and India was released as a joint media statement, after their annual meeting.

They composed a letter to India in 2015 after ASEAN attempted its own internal scoping exercise, saying it was not set up to redesign the settlement to a 'new century' agreement with improved inclusion and tighter rules of origin. In this current scenario, it is tough to assert whether the review will be concluded within November of 2020, with different timelines of both ASEAN and India and a possible grudge held by ASEAN on India for backing out of the RCEP or refusing to pursue further negotiations, however, an assumption can be made that on grounds of diplomacy and reputation, ASEAN will take an active stance on the review and make trade more facilitative and business-friendly between the India and ASEAN. In the researchers' view, this creates an ample field in ASEAN and the South Asian market for India to operate in.

**Support from the US for India, as a means to counter China** - USA currently suffers from the disadvantage of China being able to overthrow USA's economic dominance due to the situational lapse in the US economy and also because of the world pandemic. Hence, USA has turned towards India for the alliance. However, this diplomatic relationship is highly compromised and is just to tackle the dragon and its influences. The pandemic has given both countries opportunities to step

into multiple sectoral collaborations like IT, Pharma, manufacturing, automotive, energy and defense.

Both countries' pharmaceutical firms have been partnering together on the production of a vaccine. At least three such alliances exist. Remdesivir, which was approved for COVID-19 therapy, will be developed and marketed by Gilead in conjunction with seven independent pharmaceutical companies. All through the border dispute with China, the United States has reliably upheld India with clear and unambiguous military and insight assistance. This crisis is one of the many reasons for strengthening America's resolve to work towards building its relationship with India as a stockade against Chinese belligerence. Considering India has already made its move against China during this crisis by banning Chinese applications and numerous other Chinese products & services. India introduced Atmanirbhar Bharat where America plays a good role as an investor. Also, with the current feud with China, a lot of MNCs have planned to move their manufacturing plants from China to India. This plays well in favor of India as this will increase India's export production. The researchers think that an increase in Indian exports will lead to a greater opportunity for India in the Southeast Asian market post-pandemic.

**India's protectionist/free trade policies and future participation in Asian FTAs** - The main objective of the ASEAN India FTA was to lower the barriers encountered in trade, such as import duties, tariffs, and other taxes in order to promote foreign trade and unrestricted market access for the trade of goods and services across these countries. However, India opted out of this agreement as there were various concerns which were not addressed and mainly because it would have an adverse impact on the manufacturing and the agriculture sector. More than half of the Indian population have agriculture as their main occupation and are dependent on agriculture for their livelihood. The elimination of tariffs and taxes would expose the agricultural sector to foreign competition and would thus, impact the domestic production and employment. The study shows that India will prefer more exports and imports and accordingly will indigenize production through its protectionist policies, thus making India a very good market in the South-East Asian region.

**Post pandemic corporate attitude towards China** - The disruption caused by this pandemic has become an important factor in shaping the world's attitude towards China. With China being the focal point of production to countries like India, Vietnam, South Africa, Russia, and the United States, they all have seen unprecedented disruptions in their supply chains of even essential consumer goods, medical equipment, and pharmaceuticals. India, for instance, also imports intermediate goods from China which later become the input content of the country's exports. The direct/indirect blame of this disastrous outbreak lies on China, which has led to an unfavourable attitude of the world including India towards China. The current geopolitical tensions, as well as the recent escalation along the frontier, are yet another reason for India's aggressive trade stance toward China.

In the post-pandemic world, many organizations around the globe are looking for a manufacturing hub to substitute China. This is due to various reasons such as the increasing labour costs in China, the recent trade war between the world's largest economies, the USA and China, wherein the Indo-Pacific gained a huge advantage from the brewing tensions. India needs to utilize this situation to its advantage and captivate the companies that are leaving China. This will boost the Make in India movement and improve the exports. The ongoing trend of localisation in India will also end up being a beneficiary if India is able to use this ongoing situation to its advantage. It is analysed that this ongoing situation is a blessing in disguise for the manufacturing sector of India provided that it utilises it up to its full potential.

**Southeast Asian countries' willingness to trade with China** - The willingness among the Southeast Asian countries to trade with China is quite questionable especially due to increasing geopolitical instability, especially between India and China, and the diversity in technology adoption and poor regional internet infrastructure. China's case on the South China Sea has raised a question on local security frameworks and jeopardized China's relations with Philippines, Indonesia, Malaysia and Vietnam. Nations also have bad sentiments and growing displeasure towards China due to the COVID crisis and focus on keeping citizens healthy and minimize economic losses. Along with this, the US continues to be the central power of the world, despite China's efforts in gaining global dominance by increasing exports. India has a great hand at capturing the world's manufacturing market and negotiating more treaties. The tension over the South China Sea can be looked upon as an opportunity by India to strengthen political and business alignments with ASEAN nations. The researchers find that the COVID crisis can help India bring better goods in the market and attain domination.

## **Conclusion and Recommendations**

### **India's Perspective for China**

In a changed world because of the coronavirus scourge, India will likewise step by step roll out a major improvement in its trade policy. India's exertion will be to advance exchange on a reciprocal premise, subsequent to joining a Free Trade Agreement (FTA) with gatherings of nations. After the time of economic liberalization, the picture of India has gotten that of an import nation. In the ongoing past, when India showed not to rejoin the Regional Comprehensive Economic Partnership (RCEP), it was viewed as being connected to the progressing pressure along the Line of Actual Control (LAC) with China. The administration is worried about the loss of profit from entering into free trade agreements with such groups.

Trade imbalances have expanded quickly in the nation throughout the previous twenty years, prompting a deficit. Since the strategy of liberalization in the nineties, India resorted to imports in numerous areas in which it was popularly dominant. For instance, India additionally relies upon

China for inputs to manufacture pharmaceuticals and the yarn of the famous Banarasi saree. The plan next, is still to be decided. The agreement is that India won't do international commerce in future with the nations through which our imports may increment further. This will happen just in the event of high export potential.

Due to the global pandemic, even, the rich nations are additionally embracing a protectionist strategy. Clearly, in such a circumstance, the accentuation of nations will be less on imports and more on exports. The administration was very clear that free trade agreements are not the only way through which India can maintain global integration (Bhagal, 2020). The commercial harmony underlying Sino-Indian ties will be shaken considerably by the pandemic. Their respective bilateral commerce shrunk by 12.4 percent in the initial two months of the year due to the coronavirus-related economic slowdown in the two nations. New Delhi and Beijing have ordinarily relied on economic cooperation and interdependence to avoid conflicts that may arise from their bilateral ties, declining exchange volume shows falling monetary trade. This diminishes the impetus to participate and make ties defenseless against disruptions at lower levels of incitement. Furthermore, measures to revive every countries' separate economies in the wake of the pandemic may level the playing field between the two as they contend all the more forcefully for supply chains, export markets, and foreign investments.

### **Proposals for India's Foreign Trade Policy**

Looking forward, the ASEAN countries will possibly refrain from doing trade with China due to the coronavirus outbreak and concerns about national security. This is where India can exploit the ASEAN and take advantage of the FTA review to strengthen bilateral ties. India should first evaluate and analyse its current FTAs in terms of benefits to different stakeholders, such as industry and customers, trade complementarities and evolving trade trends over the past decade, prior to entering into any multilateral trade agreement. We must also search at trade complementarities and enforcement costs in negotiating bilateral FTAs with countries. In addition, proper guidelines should be laid down to discourage the dumping into the Indian market of lower-quality dangerous products.

India has lifted 300 million individuals out of massive poverty by merging itself with the global economy. From 1960 to 1990, the GDP numbers were frail and characterized by a waning manufacturing industry and a lack of consumer goods. Though, the current self-reliant mindset emphasises on exports more than imports, trade can only be executed with a dynamic balance between exports and imports. This balance is also essential for merging with the global supply chains. The second pillar of globalization consists of cross border investments, in addition to trade in goods and services. In India's case, there is a deficiency in the pool of domestic savings to fund the huge investment required for physical and social infrastructure development (i.e., health and

education). On one hand, India requires a steady flow of investments on a long term basis, on the other hand, North America and Europe in the West want decent returns on investment to sustain its older population. Thus, India's capital requirements align beautifully with the West's demand for long-term significant returns. One of the things that would ensure this, is a predictable and clear policy structure which would enable the flow of long-term capital into India (Gulati, 2020). Though India should opt for capturing key Asian markets with significant support from the West and aim for more global integrations to boost supply chains for the most pandemic affected industries, this fact cannot be denied that India will adopt a tougher stance in global engagements, considering its withdrawal from RCEP. Whether India will go into any FTA talks where China is a participant, especially post-pandemic, is a huge question yet to be answered.

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