

RIS A Think-Tank of Developing Countries

RIS is a New Delhi-based autonomous policy think-tank supported by the Government of India and devoted to trade and development issues. Its work programme focuses on policy research and capacity building on multilateral trade and financial negotiations, regional economic cooperation in Asia, South-South cooperation, new technologies and development, and strategic policy responses of developing countries to globalization, among other issues. The work of RIS is published in the form of research reports, books, discussion papers, policy briefs and journals.

RIS has networked effectively with other prominent policy think-tanks, government agencies, industry bodies and international organizations in Asia and other parts of the world for collaborative research and joint activities. It has a consultative status with UNCTAD, and has been accredited to the Summit Meetings of NAM and WTO Ministerial Conferences. It has conducted policy research and other activities in collaboration with other agencies, including UN-ESCAP, UNCTAD, UNU, Group of 77, SAARC Secretariat, Asian Development Bank (ADB), the World Bank, and the South Centre.

For more information about RIS and its work programme, please visit its website: www.ris.org.in.

— Policy research to shape the international development agenda



RIS
Research and Information System
for Developing Countries

Core IV-B, Fourth Floor
India Habitat Centre
Lodhi Road
New Delhi-110 003, India.
Ph. 91-11-2468 2177-80
Fax: 91-11-2468 2173-74-75
Email: dgoffice@ris.org.in
Website: <http://www.ris.org.in>
Website: <http://www.newasiaforum.org>

RIS Discussion Papers

India's Regional Trading Arrangements

**Rajesh Mehta
and
S. Narayanan**

RIS-DP # 114



RIS
Research and Information System
for Developing Countries

India's Regional Trading Arrangements

**Rajesh Mehta
and
S. Narayanan**

RIS-DP # 114

August 2006



RIS
**Research and Information System
for Developing Countries**

Core IV-B, Fourth Floor, India Habitat Centre
Lodhi Road, New Delhi – 110 003 (India)
Tel: +91-11-2468 2177/2180; Fax: +91-11-2468 2173/74
Email: dgoffice@ris.org.in

RIS Discussion Papers intend to disseminate preliminary findings of the research carried out within the framework of institute's work programme. The feedback and comments may be directed to the author(s). RIS Discussion Papers are available at www.ris.org.in

Contents

I. Introduction	1
II. Conceptual Basis of RTAs: Trade Creation and Diversion	5
III. Trends in RTAs at the Global Level	6
IV. Analysis of Patterns of India's Economic Regionalism	8
V. Welfare Gains and Implications for Human Development in India's RTAs	31
VI. Concluding Remarks	34

Tables

Table 1: Notifications of RTAs in Force to GATT/WTO as of 15 June 2006	6
Table 2: SAFTA: Time Schedule of Tariff Concession given by Different Countries	10
Table 3: SAFTA: Number of Tariff Lines* (6-digit HS level) where no Tariff Concession will be given by Different Countries	11
Table 4: Preferential Tariffs under India-Sri Lanka Free Trade Agreement	17
Table 5: Value of India's Imports subject to different types of Tariff Concession under ILFTA	19
Table 6: India-Singapore FTA: Tariff Elimination/ Preference by India	26

Figures

Figure 1: Notified RTAs in Force, as of February 2005, by Type of Agreement	7
Figure 2: India's Exports/Imports with Mercosur, 2001-2005	30
Box 1: Poverty Issues in the SAARC: Some Lessons	33
References	35

India's Regional Trading Arrangements*

Rajesh Mehta**
S. Narayanan***

Abstract: This paper presents a brief non-technical overview of the conceptual basis of RTAs by highlighting the implications of concepts like trade creation and trade diversion. The paper then moves to pinpointing some of the global trends in RTAs to place the Indian engagements in a perspective. The patterns of India's regional economic initiatives are analyzed by presenting the factual account of the same. A brief over view of possible welfare and human development implications of RTAs in general and of India in particular are also dealt.

I. Introduction

Recent times have witnessed an increasing emphasis on India's economic partnership arrangements with various countries and regions. Some of which are in the immediate neighbourhood and some are in the inter-regional framework of economic cooperation. The interactions have ranged from bilateralism to sub-regionalism to regionalism. At the same time, India stands committed to the multilateral process of trade and trade-related rules like under the aegis of the WTO.

India has had freer trade regime with Nepal and Bhutan. But the only Free Trade Agreement (FTA) experience with any meaningful relevance has been in the case of India-Sri Lanka FTA. Only recently, India has

* Revised version of paper prepared with the support of UNDP, Asia Pacific Trade and Investment Initiative, Regional Centre in Colombo.

** Senior Fellow, RIS, New Delhi. Email: drmehtarajesh@gmail.com

*** Hon. Visiting Professor, Administrative Staff College of India, Hyderabad.

signed Comprehensive Economic Cooperation Agreement (CECA) with Singapore. India's Draft Framework Agreements for an FTA with Thailand and ASEAN have been signed but only the former one has been implemented in the form of an Early Harvest Scheme covering a modest number of products for tariff liberalization. Within the South Asian region a South Asia Free Trade Agreement (SAFTA) treaty has been signed and the present phase is characterized as a transition from SAPTA to an FTA. India is also a member of the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) and its FTA. In the inter-regional context, a PTA has been signed with MERCOSUR. Since inception, India has been a member of the Bangkok Agreement and the GSTP.

Some of the initiatives that are in the process of being studied negotiated and implemented include India-Japan Comprehensive Economic Cooperation Agreement (CECA), India-Korea Economic Cooperation, India-Malaysia FTA, India-Sri Lanka Comprehensive Economic Partnership Agreement (CEPA), India-Bangladesh FTA, Bangladesh-Bhutan-India-Nepal Growth Quadrangle, IORARC, India-China Economic Cooperation, India-GCC economic cooperation, India-Brazil-South Africa (IBSA) Initiative, India-Mauritius and India-Egypt economic partnership, India-EU economic Cooperation, etc. India is also pursuing the idea of a pan-Asian level economic cooperation initiative known as the Asian Economic Community (AEC). A major highlight of some the recent attempts at economic cooperation initiatives is in terms of a broadening of scope and emphasis ranging from trade to investment and services. India is now focusing on non-tariff barriers along with tariffs as well as on services along with goods. Investment cooperation has also emerged as an area of priority. In addition, intensive work is being done on issues like the rules of origin, mutual recognition agreements (MRAs), anti-dumping provisions, revenue compensation mechanism, safeguards like sensitive or negative lists, time schedule for tariff elimination/concession, dispute settlement modalities, etc. In short, in the present-day agreements India has placed considerable emphasis on making them as comprehensive as possible.

An obvious and complex question arises as to what are the determining motives behind this spate of initiatives that India has been taking in recent

times. An answer to this question would involve a multidisciplinary analysis covering political, strategic, economic, etc. dimensions. We leave this question by flagging some of the possible reasons for such engagements. On one hand, there has been a view that India was lagging behind the global trends of mushrooming RTAs and would have been left out of the global economic space if such initiatives were not launched. Arguably, if major trading partners of India enter into RTAs, India would remain not only isolated but would face WTO-consistent discriminatory trade-treatment in those markets and would stand to lose its trade shares and market access. In this context, the issues of market diversification as evident in India's 'Look East' policy is as relevant a dimension as much its need to strengthen its economic linkages with the developed world trading partners through RTAs. Secondly, some opine that it is the lack of momentum at the multilateral level, which has also contributed to India's shift in approach towards regionalism. However, one may hasten to add that India has remained committed to the WTO process and considers regional cooperation steps as building blocs towards globalization and multilateral processes. Thirdly, one may argue that there is a mix of geo-political-economic considerations simultaneously at play, determining these moves. This is a complex issue which requires a separate analysis and the focus of this paper is to present a case study of India's RTAs by concentrating on some of the important dimensions.

At this stage a reference to the debate on multilateralism vs. regionalism vs. bilateralism may also shed some light on the possible reasons for India's quest with regional and bilateral economic engagements. Despite making a strong case for multilateralism, the WTO Consultative Board Report (2004), often referred to as Sutherland Report, acknowledges the potential benefits of agreements like the EU and NAFTA in acting 'as spurs to the more hesitant development of the Multilateral System. Protectionism at national level can be confronted and defeated to the benefit of later multilateral system.' It further takes into account the argument that 'small groups of developing countries may see value in liberalizing within regional trade arrangement as a means of working their way in (or moving up the learning curve) to the harsher competitive realities of the global economy.' It is clear from the above that even the most ardent advocate of multilateralism

do consider that regionalism actually could have beneficial implications for the multilateral process and by the same token one may argue that bilateralism also have certain positive policy implication for the regional economic integration process.

Understanding such imperatives of trade agreements along with there positive and negative economic impacts, World Bank (2005) focuses on identifying ways and means to design and implement preferential trading agreements to maximise their benefits for participant and minimise their cost to non-member developing countries. The report thus argues in favour of making regional agreements complementary to the multilateral system by aiming at *Open regionalism*.

Taking the arguments further to the domain of empirical justification for the gains from preferential trade integration in the South Asian region one may refer to Srinivasan and Canonero (1993) and Srinivasan (1994) who estimated the impact of potential trading blocs involving South Asian countries. According to which for the larger economies, like India and Pakistan, the principal gains seem to come from preferential arrangements with the European Community and the US. This is to be expected since a large share of their trade is with these countries. On the other hand, regional integration leads to greater gains in the value of trade for the small economies like Bangladesh and Nepal.

It may be pointed out that Srinivasan's studies have addressed only the trade impact and not the welfare consequences of preferential and unilateral liberalization. Preferential liberalization may be welfare enhancing even if trade diversion (which occurs as members substitute low cost products from outside with high-cost products from inside the region) is larger than trade creation (as high cost local production is replaced with imports of more efficiently produced goods from the trading partners).

To shed some light on these issues, a study by Miria Pigato *et al.* (1997) of World Bank, has estimated welfare consequences of (i) preferential liberalization (Intra-South Asia) and (ii) those of discriminatory liberalization. The studies have found that India's gains are much larger in

the unilateral liberalization scenario than in the regional scenario. In the latter, trade creation gains are modest because 'the rest of South Asia' (i.e. South Asia minus India) is so much smaller, while terms of trade gains are low because protection in the 'rest of South Asia' is also lower than in India. By contrast, the benefits to 'the rest of South Asia' from preferential liberalization are larger than those from unilateral liberalization. This is because 'the rest of South Asia' gains free access to the protected Indian market, which results in a significant improvement in terms of trade.

Against this backdrop, this paper presents a brief non-technical overview of the conceptual basis of RTAs by highlighting the implications of concepts like trade creation and trade diversion in Section II. The paper then moves to pinpointing some of the global trends in RTAs to place the Indian engagements in a perspective in Section III. In Section IV, the patterns of India's regional economic initiatives are analyzed by presenting the factual account of the same. The possible welfare and human development implications of RTAs in general and of India in particular are dealt with in Section V. Towards the end, some concluding remarks are summarized.

II. Conceptual Basis of RTAs: Trade Creation and Diversion

In 1950s, the theory of *custom union* was established during the first wave of economic cooperation/integration between different states.¹ Since then the concepts of 'trade-creation' and 'trade diversion' have been widely employed for investigating the global welfare of an economic union, a custom union (CU) or FTA or PTA. In general, a FTA/PTA confers on a country, two advantages: (a) an expansion of consumption opportunities by making low cost goods available, and (b) a shift of resources into more productive areas, thereby enhancing production efficiency. When a FTA/PTA is formed, there are two conflicting movements: (a) towards lower cost sources for some goods, and (b) towards higher cost sources for other. For example, when Thailand imports from India (after formation of PTA/FTA), what it previously produced at home, new trade is 'created'. Indian products are now imported because they are cheaper, and so efficiency is also lifted up. On the other hand, when India imports from Thailand (after formation of PTA/FTA) that it previously imported from third countries (other than

India and Thailand) than trade is ‘diverted’, and efficiency falls. The former effect is called ‘trade creation’ and latter is ‘trade diversion’.

In practice, an FTA/PTA will set in motion both sets of forces: trade creation in some products and trade diversion in certain others. Therefore, to say whether a PTA/FTA increases or decreases welfare, one has to measure relative magnitudes of trade creation and trade diversion. If trade creation dominates, then in static framework it is a case of positive production gain and hence there (generally) is rise in global welfare. On the other hand, if trade diversion dominates, then it is a clear sign of negative production effect, and hence (generally) a loss of global welfare. However, this theory has been challenged in dynamic framework and a number of other aspects like ‘natural partners’, ‘common border’, etc. have also been incorporated to analyse the impact of FTA/PTA.²

III. Trends in RTAs at the Global Level

The vast majority of WTO members are party to one or more regional trade agreements. The surge in RTAs has continued unabated since the early 1990s. Some 260 RTAs have been notified to the GATT/WTO up to Feb. 2005. Over 170 RTAs are currently in force; approximately 20 will enter into force after ratification, an additional 70 are under negotiation proposed stage.³ Table 1 summarises the position of notification of RTAs in force to WTO/GATT as on June 15, 2006, under different clauses of GATT/WTO.

Regional trade agreements differ considerably in scope. In their simplest

Table 1: Notifications of RTAs in Force to GATT/WTO as of 15 June 2006

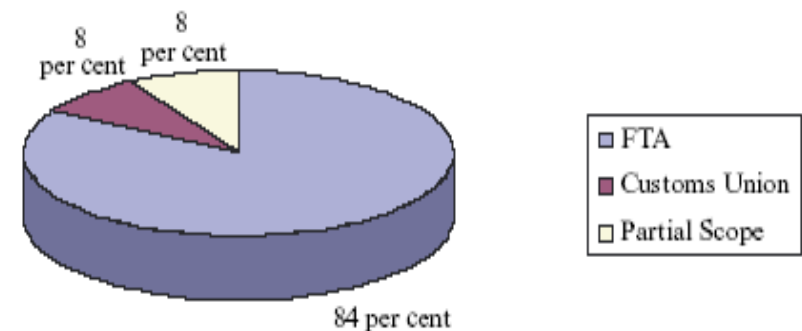
	Accessions	New RTAs	Total
GATT Art. XXIV (FTA)	4	122	126
GATT Art. XXIV (CU)	5	6	11
Enabling Clause	1	21	22
GATS Art. V	2	36	38
Total	12	185	197

Source: WTO (2006).

form, they provide for the exchange of preferences on a limited range of products between two or more parties. At the other extreme, they may both liberalize “substantially all” trade and contain trade disciplines which stretch well beyond traditional tariff elimination to areas such as standards, services, intellectual property and competition. While some RTAs on goods are fully functioning and have resulted in high levels of integration, others have been less successful.

Free-trade areas are generally, except in Africa, much more prevalent than customs unions (Fig. 1). They account for almost 88 per cent of all RTAs identified. Few, if any, FTAs provide for the complete elimination of all tariffs and non-tariff measures between their parties. Most provide for the elimination and/or reduction of existing tariffs, with varying degrees of exclusions. Customs unions generally provide for the establishment of a common external tariff in a number of stages to be completed over time. In some cases, these stages are either not clearly defined or often extended. Only a few of the RTAs identified, which were established, with the aim of becoming a customs union have so far achieved that goal. Not only do RTAs differ considerably in scope, but their configurations are diverse. The simplest configuration is a bilateral agreement formed between two parties; a plurilateral agreement unites three or more. More complex are agreements in which one (or more) of the parties to an agreement is an

Fig. 1: Notified RTAs in Force, as of February 2005, by Type of Agreement



Source: Crawford and Fiorentino (2005).

RTA itself. This can occur either in the case of a customs union [e.g. the agreements signed between the EC and the Euro-Mediterranean countries) or a free-trade area (e.g. the similar web of agreements signed by the European Free Trade Association (EFTA)].

IV. Analysis of Patterns of India's Economic Regionalism

India has negotiated number of regional and bilateral FTAs/PTAs. As part of its trade policy, it is negotiating number of other arrangements. Following paragraphs outline same salient features of some important arrangements.

SAARC

The South Asia region comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. With the exception of Afghanistan, these countries including India have organised themselves as members of the South Asian Association for Regional Cooperation (SAARC). The South Asian region has attempted to intensify regional economic integration over the past decade through regional, sub-regional and bilateral approaches. The progress of South Asian Preferential Trading Arrangement (SAPTA) in terms of tariff liberalization had been rather slow because of product-by-product or 'positive list approach' adopted.⁴ Trade liberalization in the region had also been attempted under bilateral FTAs such as between India-Sri Lanka, besides India-Bhutan and India-Nepal. Several new bilateral FTAs between other South Asian countries, i.e. Maldives, Pakistan, Bangladesh, Sri Lanka and Nepal, are being discussed. In addition a number of South Asian countries and Southeast Asian countries are participating in BIMSTEC that is moving towards an FTA. Even the limited experience with trade liberalization under SAPTA had produced encouraging results in terms of trade expansion. The bilateral FTAs in the region appear to have led to equitable expansion of trade flows with exports from smaller and lesser-developed partners growing faster. The FTAs have also led to investment flows and trade-creating joint ventures, which facilitate development of supply capabilities of lesser-developed partners. These experiences have prompted the governments to expand the scope of India-Sri Lanka FTA to cover trade in services and investments in the framework of a Comprehensive Economic Partnership Agreement.

SAARC has now achieved a milestone in terms of signing of the SAFTA Treaty in Islamabad in January 2004. The studies suggest that SAFTA could lead to substantial expansion of mutual trade and efficiency-seeking investment in the region (RIS, 2004). More recently the South Asian Free Trade Area Agreement (SAFTA) was ratified by all the Contracting States (CSs) and formally launched on July 1, 2006, marks a step further in the economic and trade relations among the seven countries of the region. This agreement acquires greater significance because it is a regional trading arrangement between some of the least developed countries like Bangladesh, Bhutan, Maldives and Nepal and the developing countries like India, Pakistan and Sri Lanka located in one of the economically most underdeveloped regions of the world. Moreover, the total intra-SAARC trade (official and unofficial) is estimated at around seven billion dollars. This agreement has further included Afghanistan as a dialogue partner, which is expected to join from 2007. However, given the political frictions, Pakistan has refused to give India the MFN (Most Favoured Nation) status and decided to deal with SAFTA and importable items list from India separately. Pakistan will continue to allow imports only of 737 (out of around 5200) tariff lines from India.

The move from SAARC Preferential Trading Arrangement (SAPTA) to a more comprehensive SAFTA is expected to benefit all the economies in the region and also pave a way towards a prospective economic union in the region. The agreement asks the contracting countries to cut the customs tariffs to levels between zero and five per cent over the next seven to twelve years (Table 2). While the relatively developed countries like India and Pakistan are required to cut their tariff to these levels by 2013 and Sri Lanka by 2014, the least developed countries are required to cut these tariffs by 2016 years in a phased manner.

With respect of sensitive list, India has kept 884 tariff lines in the Sensitive List for non-LDCs and 763 for LDCs (Table 3). India's Sensitive Lists include mainly goods from agriculture sector, textile sector, chemicals & leathers and sectors reserved for small-scale industries. On the market access to Bangladesh, a limited market access through Tariff Rate Quota (TRQ) has also been finalised for fertiliser sector. It has been decided to

Table 2: SAFTA: Time Schedule of Tariff Concession given by Different Countries

Countries Giving Concession	Countries Getting Concession	MFN Tariff Range (%) -T	Maximum Level of Tariff (%) in Different Years																	
			Base Year – July 1, 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016							
India Pakistan	LDCs	0 - (any level)			0 - 5															
	Non-LDCs	>20	0.9*T	20 ^a																
Sri Lanka	LDCs	0 - (any level)			20 ^a															
	Non-LDCs	>20	0.9*T	20 ^a	0.9*0.9*T															
Bangladesh, Bhutan, Maldives, Nepal	ALL	<20	0.9*T	30																
		<30	0.95*T	0.95*0.95*T																

^a = Encouraged to reduce in equal annual instalment during first two years.

^b = Encouraged to reduce in equal annual instalment from 3rd to 7th year (5 years), but not less than 15 percent per annum.

^c = Encouraged to reduce in equal annual instalment from 3rd to 8th year (6 years period), but not less than 15 per cent per annum.

^d = Encouraged to reduce in equal annual instalment from 3rd to 10th year (8 years) but not less than 10 per cent per annum.

Table 3: SAFTA: Number of Tariff Lines* (6-digit HS level) where no Tariff Concession will be given by Different Countries

Importing Country	Countries which will not get concessions	No. of Tariff Lines
Bangladesh	LDCs (Non-LDCs)	1249 (1254)
Bhutan	All	157
India	LDCs (Non-LDCs)	763**(884)
Maldives	All	671
Nepal	LDCs (Non-LDCs)	1304 (1335)
Pakistan	All	1183
Sri Lanka	All	1063

LDCs: Bangladesh, Bhutan, Maldives and Nepal.

Non-LDCs : India, Pakistan, and Sri Lanka.

* Total Number of tariff lines at 6-digit HS level are approximately 5224.

** India will give tariff quota on 6 million pieces of fabric to Bangladesh.

accord 6 million pieces of fabrics with the condition that sourcing of fabrics should be either from India or of Bangladesh origin. Also, TRQ of 2 million pieces without any conditions of sourcing of fabrics has been agreed.

In the area of rules of origin, change of tariff heading (CTH) at four-digit HS has been agreed upon along with domestic value content of 40 per cent for non-LDCs and 30 per cent for LDCs. Product Specific Rules (PSR) for 191 tariff lines on technical grounds where both inputs and outputs are on the same four-digit HS level have also been agreed.

A mechanism for compensation of revenue loss to LDCs has also been agreed at. It has been decided that the compensation to LDCs except to Maldives will be available for four years and to Maldives for six years. The compensation shall also be subject to a cap of 1 per cent, 1 per cent, 5 per cent and 3 per cent of customs revenue collected on non-sensitive items under bilateral trade in the base year. However, the extent of compensation shall not apply in case of claims of compensation by Maldives from India in the event of loss of revenue being higher than the above annual ceilings.⁵

Moreover, it has been agreed that Non-LDCs would provide technical assistance in areas like capacity building in standards, protect certification,

training of human resources, data management, institutional upgradation, improvement of legal systems and administration, customs procedures and trade facilitation and market development and promotion.

In 2003-2004, India's total trade turnover with the other six SAARC member countries (excluding Afghanistan) amounted to US\$ 4830 million against US\$3244 million achieved in the previous year, reflecting an increase of 48.98 per cent. While India's exports to these countries stood at US\$ 4159 million in 2003-2004 against US\$ 2731 million in 2002-2003 registering an increase of 52.29 per cent; imports from these countries amounted to US\$ 671 million in 2003-2004 as compared to US\$ 513 million in 2002-2003 showing an increase of 30.64 per cent. During 2004-05, India's total trade (tentative) with the SAARC member countries amounted to US\$ 5216 million, i.e. increase of 8.0 per cent in the same period during the previous year. While Indian exports to these countries touched US\$4309 million in 2004-05, i.e. increase of 3.6 per cent over 2003-04, India's imports from these countries were to the tune of US\$907 million as compared to US\$ 671 million during 2003-04, showing an increase of 35.2 per cent.

RIS (2004) discusses challenges and prospects for regional cooperation in the area of human development. Along with liberalized policy reforms and greater integration with the world economy, South Asian countries have recorded considerable progress in human development indicators like poverty reduction, educational attainment, improved health facilities, etc. Yet, the levels of achievement have varied across countries and the challenging task of further improving the quality of life of people still remains.

Given the fact that the growth of investment in human development in most of the countries has not been commensurate with their economic growth, the RIS (2004) underlines the need for greater focus on social sector investments such that the countries are able to achieve the UN Millennium Development Goals. On the optimistic side, the Report highlights some of the initiatives undertaken by different countries in the region to improve the living conditions of targeted groups and calls for scaling up and sharing of such successful experiences among the South

Asian countries. Strengthening of regional cooperation efforts towards human development in general and poverty reduction in particular, initiated under the aegis of SAARC, have also been emphasized.

Indo-Bangladesh

India is negotiating bilateral FTA with Bangladesh for last couple of years. India's relations with Bangladesh, influenced as they are by geographic proximity and historical legacy, are extensive, wide ranging and complex. The land boundary of more than 4000 km is India's longest with any neighbour. Cultural affinities with India in general and West Bengal in particular and ethnic linkages with our North-eastern States greatly enhance the level of people-to-people contacts. The infrastructural links between India and Bangladesh are multi-modal in nature (MEA, 2004). There is a regular bus service between Calcutta-Dhaka. An Agreement was signed in July 2001 for a bus service between Agartala-Dhaka. There are 3 broad gauge and 2 meter gauge rail links and an agreement for starting a passenger rail service was signed in July 2001. The Inland Water Transit and Trade Protocol, operational since 1972, allows for carriage of goods by IWT mode. However, there is no arrangement for multi-modal transit of Indian goods through BD.

Our bilateral trade ties are significant. As per India's official trade statistics, it exported US\$ 1589 million in the period 2004-05 and imported US\$ 55 million worth of goods during the same period. Major items of export from India are: food grains (this is sporadic, dependent on floods and can be very substantial as in 1990-91 and 1998-99, US \$ 267 million and US\$ 526 million respectively), cotton yarn, fabrics, made-ups, machinery, instruments, glass/glassware, ceramics and coal. Major items of import from Bangladesh are: raw jute, jamdani sarees, inorganic chemicals, leather, etc.

India entered into an agreement with Bangladesh to extend a credit line of Rs. 200 crore to Bangladesh in June 1999. This credit line is being utilised to import double-decker buses, railway locomotives and other related items. There are 28 Indian joint ventures in Bangladesh with an equity participation of US\$ 16.6 million and 7 wholly owned subsidiaries with an

equity of US\$ 0.6 million in various areas such as textiles, building industry, chemicals, IT, automobile sector, etc.

Indo-Bhutan

The bilateral Trade Agreement between India and Bhutan provides for free trade and commerce. Commercial transactions are carried out in Indian Rupees and Bhutanese Ngultrum. India provides unhindered transit facilities to landlocked Bhutan to facilitate its trade with third countries. Bilateral trade and economic relations continued to run smoothly during the year. India is Bhutan's largest trade partner. During the year 2004-2005, Bhutan's exports to India totalled US\$ 84.2 million and constituted a very significant share of its total exports. Imports from India were of the order of US\$ 50.2 million

Petroleum products, cereals, motor vehicles and spare parts, iron and steel and its products, machinery and mechanical appliances, chemical products, edible oil, wood charcoal and coal are India's main exports to Bhutan. Besides electricity, calcium carbide, gypsum, ferro-silicon, particleboard and Portland cement are the main imports from Bhutan. Indian vehicles dominate the automobile market and have captured more than 80 per cent of the market. GoI funded projects have also contributed to increasing imports from India (MEA, 2004 and MOC, 2004).

Indo-Nepal

Indo-Nepal relations on trade and other related matters are governed by the bilateral Treaties of Trade and Transit, and Agreement for Cooperation to Control Unauthorised Trade. The Treaty of Transit as modified on 5th January 1999, is automatically extendable for a period of seven years at a time, unless either party gave to the other a written notice, six months in advance, of its intention to terminate the Treaty. The Treaty of Trade and the Agreement for Cooperation to control Unauthorised Trade, which was valid upto, 5 December 2001, had been extended for a period of three months upto 5 March 2002, on adhoc basis.

Though under the international conventions, Nepal being a landlocked country, India is obliged to provide only one transit route to facilitate Nepal's

trade with third countries, 15 transit routes have been provided through the Indian territory and more such routes can be added to the list with mutual agreement. In addition, facilities have also been provided for Nepalese trade with Bangladesh by road and rail route and with Bhutan by road route. Movement of Nepalese goods from one part of Nepal to another part of Nepal through the Indian Territory is also permitted. On the request of Government of Nepal, an additional transit route was opened during 1997 through Phulbari-Banglaband to facilitate movement of Nepalese goods to and through Bangladesh over a shorter distance.

Goods of Nepalese origin were allowed duty free entry in India as a special privilege given to that country. This led to large-scale duty free import into India of items using substantial inputs of third country origin with minimal value addition in Nepal causing injury to Indian industry. Accordingly, as provided in the Treaty, the process of negotiations was initiated for making modifications in the Treaty and its Protocols to address the problems faced by the Indian industry. The India-Nepal Treaty of Trade was reviewed and modified on 2 March 2002 restoring the concept of value addition in imports from Nepal and making the value addition criteria more transparent. The Treaty of Trade is now valid for five years from 6 March 2002. The Agreement for Cooperation to Control Unauthorised Trade was also renewed for a period of five years with effect from 6 March 2002. (MoC 2004)

Indo-Sri Lanka

Sri Lanka has traditionally been an important export market for India, and is the second largest importer of Indian goods in the region after Bangladesh. The bilateral trade is carried out in accordance with the provisions of the Trade Agreement signed in 1961. The trade is in freely convertible currencies and on MFN basis. The trade has grown strongly in recent years, with India enjoying a favourable trade balance. Both countries are signatories to WTO, SAARC and the Bangkok Agreement. Within the framework of SAARC Preferential Trading Arrangement and the Bangkok Agreement, mutual preferential trade concessions are extended to each other.

India and Sri Lanka have signed a Free Trade Agreement on 28 December, 1998, under which tariff on a large number of items would be

phased out within an agreed time frame except in the Negative List. Table 4 displays a summary table of these concessions by India and Sri Lanka. The key data given in this table can be analysed in several ways. The salient features of tariff concession offered by India are as follows:

1. The ILFTA does not attempt to remove all tariffs at one go. Instead, tariff reductions on some goods are to be effected immediately, while in others reduction is to be applied gradually. Thus, out of a total of 4919 (=5115 - 196) tariff lines on which India has offered tariff concessions, 1348 tariff lines are listed for 100 per cent reduction in the first year itself; and in the rest it is to be effected in a phased manner.
2. India has a three-year time to give duty free access to all Sri Lankan exports, except tea, textiles and other items listed in the negative list.
3. The agreement excludes some India 196 items from the proposed tariff reduction on the ground of injury or threat of injury to domestic industry, and also for national security reasons. The list of these excluded items is called the negative list. Though such negative list hinders the effectiveness of ILFTA, they ease adverse political pressures, which could have a destabilizing effect on the economy. Negative list also provides an opportunity to delay the exposure of domestic industry to international competitors, while its strategic importance to the country is realized.
4. The import of tea from Sri Lanka on a preferential basis shall be subject to annual maximum quota of upto 50 million kilogram on a fixed tariff concession of 50 per cent. The items of garment under ITC-HS chapters 61 and 62 are offered special tariff concession under FTA. These items while remaining in the negative list, will be given 50 per cent tariff concession on a fixed basis, subject to an annual restriction of 8 million pieces, of which 6 million shall be eligible for concession only if these are made of Indian fabric and no category shall exceed one and half million pieces per annum.

Table 4: Preferential Tariffs under India-Sri Lanka Free Trade Agreement

A: ILFTA: Type of Tariff Concession given by India		
Category (i.e. Annexure No. Of ILFTA)	Level of concessions	No. of Tariff Lines (6-digit HS level)
D*	Zero per cent removal (negative list)	196
E	100 per cent removal	1348
IR	50 per cent removal in the first year 100 per cent removal in the third year	2806
TEA	50 per cent removal + quota	5
TEX (Textile)	25 per cent removal	527
GAM (Garment)	50 per cent removal + quota	233
B: ILFTA: Type of Tariff Concession given by Sri Lanka		
Category	Level of concessions	No. of Tariff Lines (6-digit HS level)
List I	100 per cent removal (Zero duty on items upon entering into force of the Agreement)	319 products
List II	Phasing out of tariffs on items with 50 per cent margin of preference for all items upon coming into force of the Agreement, with total 100 per cent phasing out by the end of third year.	889 products
List III	For the remaining items, (except for those on the negative list), preference to be initiated from third year and deepened to 100 per cent within eight years	2724 products
List IV	Zero per cent removal (negative list)	1180 products

*A large number of items of the Garment industry (category GAM) are also included under Indian negative list (category D). However, India has offered preferential tariff for 8 million pieces of garment, out of which 6 million pieces have to use Indian fabrics as inputs and remaining 2 million pieces are offered tariff preferences without any condition.

5. A close inspection of ILFTA shows that three main items falling under negative list are rubber products (29 tariff lines of HS chapter 54) plastic articles (68 tariff lines of chapter 39), and man made filaments (14 tariff lines of chapter 54). Items like edible fruits and nuts, coffee, tea mate, spices, oilseeds, lac and gum, animal and vegetable fats, mineral ones, rubber articles, iron and steel articles of iron and steel, copper articles, and zinc articles are some of the items that fall under phased reduction of 50 per cent in the first year, followed by 100 per cent reduction in the third year. The main item that comes under 100 per cent reduction in the first year is pulpwood (chapter 47).

If one refers to the second part of Table 4, one of the most important highlights of the type of tariff concessions given by Sri Lanka under the ILFTA is the fact that Sri Lanka being a smaller partner of India has been allowed to retain a much larger list of items under the category of negative list (1180 items). Similarly, Sri Lanka under took 100 per cent tariff liberalization at the time of the Agreement entering into force on only 319 items as compared to India's 1348 items. Another important feature of the ILFTA is the extended length of time given to Sri Lanka, i.e. eight years to achieve a full-fledged FTA as compared to India, which made the commitments to do so in three years only.

It is possible to make many other observations. Table 5, for instance, arrays, row-wise tariff concessions under various headings, and against each entry in the same row are marked total number of tariff lines, imports to India from the world as a whole, and imports from Sri Lanka. Note that there are 2806 tariff lines where tariff reductions are to be applied in a phased manner (50 per cent in the first year, and 100 per cent in the third year); and these together account for 75 per cent of imports from Sri Lanka, but only 46 per cent of India's total imports. At the other extreme, we have 1348 tariff lines where 100 per cent tariff reduction is to be effected in the first year itself; and these account for 7 per cent of imports from Sri Lanka, but 50 per cent of India's total imports. Details are given in Mehta (2001).

Table 5: Value of India's Imports subject to different types of Tariff Concession under ILFTA

Types of Tariff Concession ¹	Level of concession given	Number of lines ²	Global Imports in I. Rs. Lakhs, 1996-97	Imports from Sri Lanka in I. Rs. Lakhs, 1996-97
IR	50per cent (1st year) 100per cent (3rd year)	2806	5945440	10922
E	0per cent	196	164137	2433
TEA	100per cent	1348	6728751	1062
TEX	50per cent + Quota	5	621	18
GAM	25per cent	527	193230	231
Total	50per cent + Quota	233	1160	0
		5115	13033338	14666

1. As defined in ILFTA

2. At 6-digit HS level

Source: (i) Indo-Lanka Free Trade Agreement web site: www.indolankafita.org

(ii) G.O.I., *Monthly Statistics of Foreign Trade of India*, Vol. III. (Import), March 1997.

The Agreement is in operation since 1 March 2000 and India's tariff liberalization programme is complete (tariff reduced to zero) since 18 March 2003, Sri Lanka's tariff liberalization programme will be complete in the year 2008. The two sides will maintain Negative Lists of items on which no duty concessions are given where protection to local industry is considered necessary.

During 2004-05, India's exports to Sri Lanka amounted to US\$ 1357 million against US\$ 1323 million in the previous year, showing an increase of 3.64 per cent. Imports during 2004-05 amounted to US\$ 365 million compared to US\$ 195 million in 2003-04, i.e. an increase of 86 per cent.

Main items exported to Sri Lanka are vehicles, pharmaceutical products, salt, sulphur, earths and stone, cocoa and cocoa preparations, coffee, tea, mate and spices, cereals, fish, plastic and articles thereof, paper and paper board, articles of paper, man-made filaments, articles of apparel and clothing accessories, iron and steel and articles thereof.

A notable feature of the ILFTA is the availability of various provisions for safeguarding domestic economic sensitivities in both the countries. Some of the safety valves include sensitive or negative lists, tariff rate quota (as in the case of tea and garments), rules of origin to protect from trade defalcation, which check a surge in imports, etc.

BIMSTEC

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, or BIMSTEC, groups together Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. The seven-country forum aims to achieve its own free trade area by 2017. The leaders of the grouping agreed in 2004 on steps designed to take forward initiatives, which formed the group's first line of action - transport infrastructure, energy, communications, tourism, trade and fisheries. They will cooperate on research and development based on resources available from their own rich natural bio-diversity, aimed at producing breakthrough affordable drugs, and also agreed to cooperate on energy issues. Working groups were set up to move the sectoral agenda, with India proposing and obtaining a

commitment to form a joint counter-terrorism team that will share intelligence and build joint capabilities.

Studies like Ratnayak (2001), Mehta (2002) and RIS (2004) have estimated gains from trade cooperation among the countries of the grouping, including in sectors like textiles and clothing.

After round of meetings, it was decided that tariff preference among BIMSTEC would start from 1 July 2006. But it has been postponed because the negotiations on safeguards measures like negative or sensitive list, rules of origin and time schedule for tariff liberalization, could not be finalised.

India-Thailand

Trade between India and Thailand had been steadily expanding in past years. However, in 1997, due to the economic problems faced by the East Asian region, Indian exports to Thailand declined. During the year 1998-99 although there was a slight improvement in the overall trade (US\$ 594), yet Indian exports declined and Thai exports increased. The subsequent years have shown consistent increase in bilateral trade. The total bilateral trade in 2000-01 increased to US\$ 843 million while during 2001-02 bilateral trade further grew to US\$ 1060 million. During 2004-05 the bilateral trade has grown to US \$ 1693 with an increase of over 17 per cent as compared to 2003-04 bilateral trade. Our exports grew by 2.9 per cent while imports grew by 36.76 per cent during the year. The balance of trade was in India's favour. However, in 2004-05 India's exports (US\$ 858 million) to Thailand are slightly higher than corresponding imports of US\$ 835 million.

During the State visit of the then Thai Prime Minister, Dr. Thaksin Shinawatra to India in November 2001, it was agreed that India and Thailand should explore together the possibility of establishing a bilateral Free Trade Area (FTA) with a view to intensifying trade and economic relations between the two countries. It was also decided that a Joint Working Group (JWG) at Government level be set up to undertake feasibility study on a FTA. JWG has in its fourth meeting in Thailand in December 2002 finalized its Report (Das, Ratanakomut and Mallikamas, 2002). The Study has concluded that there exists immense potential for enhancing cooperation in trade and other

areas such as services and investment and the proposed FTA was feasible and mutually beneficial. A Joint Negotiating Group (JNG) was formed with the objective of drafting a framework agreement on the India-Thailand FTA. The first meeting of the JNG was held back-to-back with the fourth meeting of the JWG in December 2002. A Draft Framework Agreement towards an FTA was signed in 2003 and subsequent to completion of rules of origin negotiations an early harvest scheme, covering 82 items at HS 6-digit level, was implemented on 1 September 2004. The full FTA is envisaged to be operational in 2010.

It is worth highlighting the delay between the signing of the Indo-Thai Framework Agreement on FTA was primarily due to a lack of consensus on rules of origin. One of the major dimensions of disagreement was on the question whether to have a general set of rules of origin or have system of product specific rules or both. While India insisted on having both a general set of rules entailing change in tariff heading at HS-4 digit level and a 40 per cent local content norm with products-specific derogation wherever necessary, the Thai side remained inflexible on their demands for having just 40 per cent value addition norms representing substantial transformation.

India-Singapore

A number of studies have been carried out to analyse India's FTA/ Comprehensive Economic Cooperation Agreement (CECA) with Singapore.⁶ There were many apprehensions regarding formation of free trade agreement in the form of tariff concessions for goods only:

1. Keeping in view the trade policy regime of Singapore, the question arises how much additional market access can Singapore provide to India through tariff concessions/or preferences in bilateral trading arrangement? It seems that Singapore can provide very little tariff preference (or concession) to India, because it applies tariffs on only 4 commodity lines of the beverages industry. The tariff rate of all other commodities tariff lines is zero.
2. It should be remembered that although Singapore has a very low level of tariff rates, it has not bound a large number of industrial products in the WTO. Singapore has given tariff binding for only 65 per cent of

industrial products/lines. Further, a large number of lines (2506) are bound at 10 per cent.

3. A large share of Singapore's trade is subject to non-tariff barriers. The import prohibitions are imposed under various orders and licence measures for considerations of public safety, health, environment, etc. It is very difficult, almost impossible, for Singapore to give preference to the Indian market by removing these barriers.
4. A large share of Singapore's exports is in the form of re-exports. So any value addition norms would be difficult to apply. So some of the trade is in paper transactions only. One can have value addition for custom purposes. It is very difficult to believe that this will lead to an enhancement of India's exports, if an FTA with some value addition criteria is agreed upon between India and Singapore.
5. It is generally said that bilateral agreement with Singapore can provide gateway to market of South East Asian countries. As far as India's exports are concerned, it can even export to East and South East Asian countries via Singapore without much hindrance. It is very difficult to understand how the FTA will help in increasing India's market access to these countries.

After a long-drawn negotiations the CECA with Singapore was concluded in 2005. The India-Singapore CECA was signed on 29 June 2005, during Singapore Prime Minister Lee Hsien Loong's State Visit to India. This landmark agreement is India's first ever CECA. It is also Singapore's first comprehensive bilateral economic agreement with a major developing country. The Agreement encompasses trade in goods and services, investment protections and other features like the Mutual Recognition Agreements that will eliminate duplicative testing and certification of products in specific sectors. The CECA process has also encompassed a review of the existing Avoidance of Double Taxation Agreement between India and Singapore. The India-Singapore CECA became effective from 1 August 2005.

The Agreement is quite comprehensive in its coverage as far as the services sector is concerned. The Agreement allows for a preferential access to bilateral trade in services under the Economic Integration Agreement in Services (EIAS) - India's first bilateral venture in the area of trade in

services. There is increased market access in distribution services including retail trade, business services including opinion polls, market research, legal, environmental management, management consultancy, tourism, real estate consultancy, and advertising, engineering, architecture, and computer-related services. There is a more liberal Air Services Agreement and open skies for charter flights.

In the financial sector, Indian banks would now have greater access to the Singapore markets with three banks obtaining full banking privileges thereby offering a host of services to the market like the facility of ATMs, etc. Similarly, three Singapore banks are to be granted a national treatment. Two state-owned companies from Singapore would be allowed to invest in listed companies 10 per cent above the ceiling prescribed for other FIIs in India. Asset managers in Singapore offering mutual funds in India would be allowed to invest US\$250 million over and above the ceiling of US\$1 billion for overseas investment in Indian mutual funds. Under GATS, India was committed to permit 12 foreign bank branches to be opened annually. But a preferential treatment to Singaporean banks would affect the requirements under the GATS. As EIAS would precede the multilateral liberalization, the service providing firms from the two countries would acquire an advantage in each other's country.

The visa restrictions are to be relaxed for in a total of 127 professional categories. The grant of visa would be easier for Indian professionals in areas like information technology, medicine, engineering, nursing, pharmacy, financial and advertising professionals, accountants and university lecturers. Singapore has also agreed to recognize the degrees issued by specified universities and technical education boards of both countries for the issuance of multi-entry visas.

The other areas to be opened up include food, poultry, milk products, electronic and electrical equipment, and pharmaceuticals. India has committed to open up for investment in the sectors of manufacture of food products, motor vehicles, textiles, paper and paper products, chemicals, leather and the infrastructure sector. India will cut tariffs on imported products from Singapore with a plan to move to zero customs duty on all

but 6551 items. These duty-free items account for around 75 per cent of Singapore's exports to India. To begin with 506 items will be allowed duty free into India from Singapore (Table 6). Singapore, on the other hand, has committed to bind all its tariff lines at zero customs duty. This agreement also has sufficient safeguards to prevent third country goods from coming in through Singapore. Stringent Rules of Origin comprising simultaneous application of change in tariff heading, value addition of 40 per cent and some well defined sufficient operations have been prescribed under the CECA to ensure that only the goods which are actually manufactured in Singapore and India benefit under this Agreement.

India-ASEAN

India and the Association of Southeast Asian Nations (ASEAN) are setting out measures to enhance their comprehensive economic partnership. A Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India, signed in 2003, lays out measures to be taken by both sides to work toward an ASEAN-India Regional Trade and Investment Area (RTIA). Negotiations on (i) rules of origin for trade in goods, (ii) the modality for tariff reduction and elimination, and (iii) negative or sensitive list for goods is being conducted.

The Agreement also provides for an early harvest programme (EHP), which gives the list of items for exchange of tariff concessions as confidence building measure. Due to difference of opinion on rules of origin, the EHP could not be implemented. The negotiations on the respective agreements were supposed to be concluded by 30 June and commence from 1 July 2007. Agreement has been reached on rules of origin with provisions like change in tariff sub-heading (at 6-digit HS level) + 35 per cent local content. Since it is a very diluted rules of provision, product-specific rules are being worked out. At present, intense negotiations are going on regarding the negative or sensitive list, the modalities for tariff reduction/elimination, dispute settlement mechanism, etc. India started negotiations with around fourteen hundred items in negative list, but it was turned down by ASEAN. It is insisting that the list should be reduced to around 60 items only. The positive list should consist of major trade between India and ASEAN. India has shown flexibility in considering tariff rate quota (TRQ) for some products

Table 6: India-Singapore FTA: Tariff Elimination/Preference by India

Categories for tariff concession by India	No. of Tariff Lines	Time Schedule of Tariff Concessions
Early Harvest Programme	506	Complete elimination of duty from 1 August 2005
Phased Tariff Elimination	2202	Complete elimination of duty by April, 2009, in a phased manner
Phased Tariff Reduction	2407	Phase reduction of duty starting from 5 per cent and going up to 50 per cent
Negative List	6551	No concession in duties to be offered

of ASEAN export interest like edible oil, and reduced its negative list to around 800 items. This constitutes around 80 per cent of ASEAN exports to India.

In this context it should be remembered that ASEAN is an important trading partners of India. Bi-lateral trade between India and ASEAN was around 16.8 billion in 2004-05, and has been consistently increasing. One-third of ASEAN exports to India constitutes agriculture products like palm oil, etc. In addition, the CGE analysis by UNCTAD shows that full liberalization will lead to significant increase in edible oil export to India, and the production re-structuring may happen in spices, tea and coffee and some other agriculture products. Hence, products of small-scale industry and agriculture with vulnerable stakeholders like small farmers should be open with caution.

In addition, no serious discussion has started for trade in services and investments.

India-Korea

During October 2004, India and Republic of Korea set up a Joint Study Group with a task of examining feasibility of a comprehensive economic partnership agreement (CEPA) between the two countries. In its report the JSG (2006) recommended that Korea-India CEPA should cover, among

others, (i) trade in goods, (ii) trade in services, (iii) measures for trade facilitations, (iv) promotion, facilitation and liberalization of investment flows, and (v) measures for promoting bilateral economic cooperation in identified sectors.

Based on this report steps have been taken to formulate CEPA between the two countries. A joint task force has been set up to conclude the formation of CEPA within 24 months.

India-Japan

The Prime Ministers of India and Japan set up a India-Japan Joint Study group for CEPA in June 2005. The report has examined various aspects like expansion of trade in goods, trade in services, investment flows and other areas of economic cooperation. The report had been finalised and is expected to provide good foundation for India-Japan CEPA.

India-China

India and China resumed trade officially in 1978.⁷ In 1984, the two countries signed the Most-Favoured Nation Agreement. The India-China Joint Group on Economic Relations and Trade, Science and Technology (JEG) at the level of Minister of Commerce and Industries was established in 1988 during the visit of Indian Prime Minister to China. The JEG has met six times till date, the last being in February 2000. During this meeting, India and China signed an agreement on issues relating to the World Trade Organisation (WTO) and an MoU for setting up a Joint Working Group in the field of steel.

Bilateral trade has recorded rapid growth since 1991. As per India's official statistics, India-China trade grew from US\$ 1,523.87 million in 1998-1999 to US\$ 12139 million in 2004-05, an increase of 72.71 per cent over 2003-04. While India's imports (US\$ 6783 million) increased by 66.88 per cent, India's exports⁸ (US\$ 5356 million) increased by 80.8 per cent.

As per China's Customs statistics, bilateral trade grew from a trade volume of US\$ 265 million in 1991 to US\$ 18,717 million in 2005, an increase of 37.6 per cent over 2004. While China's export to India (US\$ 8973 million) increased by 50.8 per cent; China's import from India

(US\$ 9780 million) increased by 27.4 per cent. India-China bilateral trade is around 1.3 per cent of China's total foreign trade.

In the 2005, China's major imports from India were ores, slag and ash (US\$ 5519 million, +28.11 per cent over 2004), iron and steel (US\$ 877 million, +45.9 per cent over last year), organic chemicals (US\$ 498 million, +37.71 per cent), plastics (US\$ 423 million, +3.4 per cent), inorganic chemicals (US\$ 370.1 million, +48.25 per cent), precious stones (US\$ 280.2 million, +21.7 per cent), cotton + yarn, fabric (US\$ 274.9 million, +14.2 per cent), etc. China's exports to India were electrical machinery (US\$ 1800.45 million, +24.96 per cent), non-electric machinery (US\$1542.2 million, +120.7 per cent), organic chemicals (US\$ 1189.0 per cent, +42.9 per cent), mineral fuel, oil (US\$ 508.8 million, +11.2 per cent), silk yarn/fabric (US\$ 425.2 million, +18.6 per cent), etc.

Indian Prime Minister visited China during June 2003. One of the main objectives of Prime Minister's visit to China in June 2003 was to strengthen the economic relationship with China. Apart from his discussions with the Chinese leadership, Indian PM addressed large business meetings in Beijing and Shanghai and conveyed the message that the two Governments were determined to make a concerted effort to move bilateral economic cooperation to greater heights. The two sides set up a Joint Study Group (JSG) of economists and officials to review existing cooperation, to identify new areas of promise and to draw up a programme for the further development of India-China trade and economic cooperation aimed at encouraging greater cooperation between the business communities of the two countries.

The JSG examined many aspects of economic cooperation as given in final report.⁹ Regarding India-China Regional Trading Arrangement, the JSG recommends "evolving a China-India Regional Trading Arrangement comprising: (a) trade in goods and services, and investments; (b) identified understandings for trade and investment promotion and facilitation; and (c) measures for promotion of economic cooperation in identified sectors. The JSG recommends that the two governments appoint a Joint Task Force to study in detail the feasibility of, and the benefits that may derive from the

China-India Regional Trading Arrangement". In a way, one can conclude that formulation of even framework for regional FTA between India and China has been postponed.

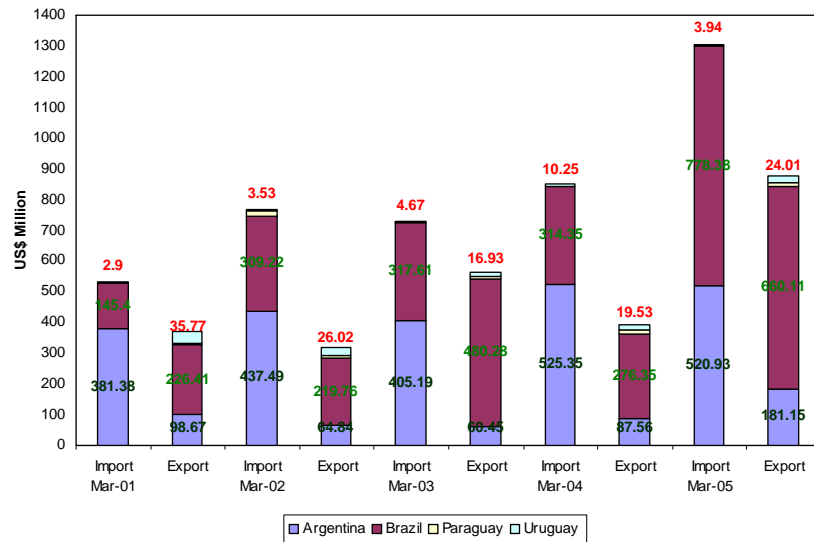
India-MERCOSUR

The Brazilian President, Mr Lula Da Silva's state visit to India in January 2004 marked the signing of the India-Mercosur Preferential Trade Agreement (PTA). A key feature of the PTA is that it links countries on distant continents emphasising the inter-regional potential of South-South Cooperation. Renewed interest in such agreements reflects both commercial and political considerations. The India-Mercosur PTA provides for five annexure and were signed in March 2005. These annexure include: (i) offer list of Mercosur, (ii) offer list of India, (iii) rules of origin, (iv) safeguard measures and (v) dispute settlement procedure. Under the present PTA India and Mercosur had agreed to give concession to other side on 450 and 452 tariff lines respectively. However, the PTA will be operational after ratification by respective legislations.

In this context it is worth mentioning that steps are being taken for the formulation of trilateral FTA between India, Brazil and South Africa.¹⁰ Since it is not technically feasible, because Brazil and South Africa are members of regional agreements (Mercosur and SACU respectively) with common external tariff; steps are being taken to formulate FTA between India-MERCOSUR-SACU.

Trade between India and MERCOSUR doubled between the mid-1990s and 2002 but remains modest. During 2002, it represented just 1.1 and 1.2 per cent of India's and Mercosur's total trade respectively.¹¹ As per India's official trade statistics,¹² India's export to MERCOSUR has increased from US\$369 million in 2000-01 to US\$877 million in 2004-05 (Fig. 2). India's major destination of export is Brazil, which constituted around 68 percentage of India's total export to MERCOSUR during 2004-05. India has trade deficit with MERCOSUR – its imports were US\$1306 million as compared to exports of US\$877 million during 2004-05. The detailed import and export statistics of India with MERCOSUR countries is given in Fig. 2.

Fig. 2: India's Exports/Imports with Mercosur, 2001-2005



Studies¹³ on 2000-2002 trade flows aimed at identifying complementary products show that the indicative trade potential for MERCOSUR exports to India is almost 16 times actual trade, and that of Indian exports to MERCOSUR is 30 times.

IOR-ARC

Substantive steps towards economic cooperation in Indian Ocean Basin are not of comparatively recent origin, beginning with the agreement of the seven countries about the launching of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) in September 1996. The charter of the new regional forum was formally agreed upon by the Member countries, and the IOR-ARC finally came into existence in early 1997. One of the main objectives of the charter is to promote sustained growth and balanced development by formulating projects for economic cooperation relating to trade facilitation, promotion and liberalization; promotion of foreign investment; scientific and technological exchanges; tourism; movement of natural persons and services; and development of infrastructure and human resources.

A case study shows that the countries of the Indian Ocean rim will capture a large market of India's import by enhancing their trade in sectors like, electric machinery, chemical & chemical products, base metals, mineral products, transport equipments and textiles. A large number of this increase will be realised by providing facilities like export infrastructure, transportation facilities, etc. (Mehta and Mohanty, 2001).

Asian Economic Community

In recent years, there has been a growing realization of the importance of intensive economic integration at the pan-Asian level in the region. It is considered that stimulus for future growth in the Asian region would have to come from within. It has also been observed that rich scope for complementarities exist among Asian economies that remain to be exploited for their common benefit. 'For instance, while the region has economies that are surplus in capital resources, there are also economies, which have inadequate domestic savings for rapid development. The region is similarly characterized by complementarities in the demand and supply of other resources such as technology, and skilled manpower' (Kumar, 2002).

The major areas of cooperation on which studies are being conducted include monetary and financial cooperation, formation of a regional trade bloc, foreign direct investment and transfer of technology and skills, among other sectors.

V. Welfare Gains and Implications for Human Development in India's RTAs

Implications of a regional trading arrangement (RTA) for human development profiles of partner countries are best captured through an analysis and estimation of welfare gains. Effects of welfare gains are analyzed in two prime ways. First, with the help of trade creation and trade diversion effects as outlined in Section I. And secondly, in the framework of computable general equilibrium (CGE) models by computing welfare effects. Either way estimation of these gains indirectly impinges upon the possible employment-generation possibilities and in turn, human development, in general. These come about with the help of concentrating on the likelihood of investment flows in trade-creating joint ventures and augmentation of

Box 1: Poverty Issues in the SAARC: Some Lessons

The synthesis reports from different country teams indicated several similarities (both positive and negative) among SAARC countries. Speaking of positive changes, during the last 2-3 decades, almost all countries have made visible progress in reducing population growth rates, raising GNP and per capita incomes, social sector facilities, etc. However, despite positive trends at aggregate level, the economic and non-economic inequalities between different groups are also visible. In all the countries share of secondary and tertiary sectors in GNP is slowly rising, while the contribution of agriculture (as a primary sector) is declining. Some of the major problems include: widespread poverty (seen through different economic and social angles), low human development index, persistence of “poverty fundamentals” (institutional inequities, rigidities, distorted incentive structures, etc. promoting poverty) and the exclusion of the poor particularly women, low caste people, unorganised sector, landless and casual labour, slum dwellers, etc. persists. This constitutes one of the major challenges before SAARC countries.

By looking at “diversities” of poverty situation in terms of who the poor are, where they live, and why they continue to be poor, the report calls for a disaggregated view of the poor and differentiated poverty reduction interventions. The disaggregated picture of poverty and a framework to understand the same has been dealt with.

The report also sketches a framework to revisit the past development strategies and tries to indicate how poverty reduction failed to get sharp and exclusive focus in the past. The dominant features of past efforts in terms of (i) centralized, top-down and supply-driven (charity dominated) approach, (ii) persistent macro-micro disconnects, (iii) disregard of “poverty fundamental” as key obstacles; (iv) low priority to institutional dimensions; (v) disregard of perspectives and potential of the poor due to top-down approach, etc. were largely responsible for their mixed success.

The report looks at the gradual shifts in development policies and approaches, which have led to the current situation where both poverty issues and anti-poverty measures are being looked at differently. At present poor are slowly recognized as partners in fighting poverty by way of enhancing their capacities, promoting social mobilization, participation and decentralization as well as bottom up approaches. The donor-NGO-government partnership is a key driver of this change.

Box 1 continued

Box 1 continued

While narrating positive achievements of past strategies the report puts together selected success stories to validate the new changes in strategies to address poverty. These success stories deal with different aspects of poverty reduction strategies. The report pleads for recording more success stories or best practices and understand their driving circumstance in order to help replicate such successes. One feature of such successes is increased role of NGOs and communities in fighting poverty and deprivations faced by the poor.

Source: SAARC Secretariat (2003).

associated flows of services in the realms of transport, banking, consultancy, telecommunication, human resources, harmonization of standards, etc.

Looking at the issues of RTAs and human development one may mention that there is now a set of studies and empirical evidence on the impacts of increased participation in international trade and investment, from which two main conclusions can be drawn. Firstly, those countries with a higher level of participation in international trade and investment tend to show higher growth rates. Secondly, if trade is to have a sustainable, positive impact on poverty reduction, it must be part of a wider, country-owned strategy, which includes a strong element of human capital development and pays attention to the situation of vulnerable groups, including women (CEC, 2002).

The gradual removal of trade barriers combined with domestic reforms, aimed at building up sound macroeconomic policies, effective institutions and regulations, and investment in infrastructure and human capital, generally results in a “virtuous circle” of opening up, greater competitiveness and higher growth (which tends to become more endogenous, even when originally export-driven).

‘The countries that have successfully combined more trade with higher growth and human development tend to have some key features in common. They have gradually opened up their economies as part of a wider development strategy based on two main pillars: improving the investment climate for the private sector to generate jobs and empowering poor people,

especially through better education. This highlights the fact that the institutional and overall policy environment within which trade liberalization takes place is the determining factor of the impact of trade reforms on economic performance' (CEC, 2002).

In the case of India's engagement with other trading partners, some of which are presented in Section III, such welfare implications have been estimated and analyzed in the case of SAARC, India-Singapore, India-Thailand, IOARC, AEC, India-Sri Lanka, etc. The studies fall in both the categories of trade creation and diversion as well as CGE results. Box 1 gives a brief about poverty development bearing.

However, it may be mentioned that the studies thus far have not examined the direct effects of RTAs on employment levels and overall human development dimensions like health, education, gender, etc. It is imperative that such considerations are made in any economic analysis of an RTA in the case of India. In the literature, attempts have been made to examine the welfare effects if the agriculture sector is included or excluded from and RTA (Scollay, 2003 and Burfisher, Robinson, and Thierfelder, 2000), which also has human development implications. This is yet another dimension not fully analyzed in the case of India's RTAs.

VII. Concluding Remarks

The analysis of India's RTAs in the preceding sections brings out clearly that it is imperative that the analytical concepts are more rigorously applied while economic engagements of India gain momentum on a wider canvass. It may also be concluded that the recent spate of India's entering into RTAs is nothing but a reflection of the prevailing global trends. However, it may be highlighted that still India's major regional economic interactions have focused more on trade and only recently talks have begun in a few cases in the areas of investment and cooperation in services. This paper also concludes that while several studies have attempted to estimate the trade gains and welfare effects in the case of India's RTAs, a lot more needs to be done in terms of making more accurate assessment of the implications of these RTAs for various dimensions of human development like literacy, life-expectancy, quality of life, empowerment, gender equality, etc.

Endnotes

- ¹ See, among others, Viner (1950), Meade (1955).
- ² For a review on preferential trading arrangements, see Panagariya (2000).
- ³ Source: Crawford and Fiorentino (2005).
- ⁴ For details, see Mehta and Bhattacharya (2000).
- ⁵ For details, see MoC (2005).
- ⁶ See, among others, Mehta (2003) and JSG (2003).
- ⁷ The 1954 Trade Agreement between India and China lapsed in 1962.
- ⁸ Source: China's Customs Statistics
- ⁹ For details see, JSG (2004).
- ¹⁰ See among others, RIS (2006).
- ¹¹ Mehta and Mathur (2004).
- ¹² Source, CMIE, India's trade, Mumbai, India
- ¹³ See Mehta and Mathur (2004).

References

- Burfisher, Mary E., Sherman Robinson, and Karen Thierfelder. 2000. "Small Countries and the Case for Regionalism vs. Multilateralism". *Discussion Paper No. 54*, IFPRI, Washington, D. C.
- Commission of The European Communities (CEC). 2002. *Trade And Development: Assisting Developing Countries To Benefit From Trade*, Brussels.
- Crawford, Jo-Ann and Roberto V. Fiorentino. 2005. *The changing Landscape of Regional Trading Agreements*, WTO
- Das, Ram Upendra, S. Ratanakomut and S. Mallikamas. 2002. *A Feasibility Study on A Free Trade Agreement between India and Thailand*. Joint Working Group. (Ministry of Commerce, Govt. of India and Ministry of Commerce, Govt. of Thailand), December.
- JSG. 2003. Joint Study Group Report on "India-Singapore Comprehensive Economic Cooperation", April, http://www.fta.gov.sg/fta/pdf/FTA_CECA_JSG_Report.pdf
- JSG. 2004. Report of the India-China Joint Study Group on "Comprehensive Trade and Economic Cooperation, <http://www.hinduonnet.com/thehindu/nic/0041/report.pdf>
- JSG. 2006. Report of the India-Korea Joint Study Group on "Comprehensive Trade and Economic Cooperation", <http://commerce.nic.in/India-Korea%20JSG.pdf>
- Meade, J. 1955. *The Theory of Custom Union*, North Holland, Amsterdam.
- Panagariya, A. 2000. "Preferential Trade Liberalisation: The Traditional Theory and New Development". *Journal of Economic Literature*, Vol. XXXVIII, No.2, June 2000, pp.287-331.
- RIS. 2004. *South Asia Trade and Development Report*, RIS.
- MoC. 2004. *Annual Report, 2003-04*, Govt. of India, Ministry of Commerce.
- MoC. 2005. "Cabinet Clears Implementation of South Asia Free Trade Agreement – A Historic Milestone for SAARC, Says Kamal Nath". Press Information Bureau, December 29, 2005, Government of India.

RIS Discussion Papers

Available at http://www.ris.org.in/risdiscussion_papers.html

- MEA. 2004. www.mea.nic.in, Government of India, Ministry of External Affairs.
- Ratnayak, R. 2001. *Prospects for BIMST-EC Cooperation in Textiles and Clothing following Abolition of The Multi-fibre Arrangement*, www.bimstec.org
- Mehta, R. 2001. *India Sri-Lanka Free Trade Agreement*, mimeo, World Bank, Oct. 2001
- Mehta, R. 2002. "Potential of India's Bi-lateral Free Trade Arrangements: A Case Study of India and Thailand". *RIS Discussion Paper No.24*.
- Mehta, R. 2003. "Economic Co-operation between India and Singapore: A Feasibility Study". *RIS Discussion Paper No 41*.
- Mehta, R. and P. Mathur. 2004. "Regionalism and South-South Trade Indo-Mercosur Trade Cooperation in Assorted Manufactured Goods", paper prepared for *Pre-UNCTAD-XI, Forum on Regionalism and South-South Cooperation; The case of the India and Mercosur*, RIO DE NAJEIRO, 9 June 2004.
- Mehta, R. and S. K. Mohanty. 2001. "Alternative Forms of Trading Arrangements in Indian Ocean Implications for India from IO-ARC" (co-author). *Indian Journal of African Studies*, Department of African Studies, University of Delhi, Vol. XII, April & October 2001, pp. 1-33.
- Mehta, R. and S. K. Bhattacharya. 2000. "The South Asian Preferential Trading Arrangement: Impact on Intra-regional Trade". *The Asia Pacific Journal of Business and Economics*, Vol.4, No.1, June 2000.
- Miria Pigato, Caroline Farah, Ken Itakura Kwang Jun, Will Martin, Kim Murrell, and T.G. Srinivasan. 1997. *South Asia's Integration into the World Economy*, World Bank
- Kumar, N. 2002. "Towards an Asian Economic Community: - Vision of Close Economic Co-operation in Asia". *RIS Discussion Paper No 32*.
- RIS. 2006. "India-Brazil-South Africa (IBSA) Economic Cooperation: Towards a Comprehensive Economic Partnership". *RIS Policy Briefs*, No. 26, June 2006.
- Viner, J. 1950. *The Custom Union Case*. Carnegie Endowment for Peace, New York.
- Scollay, R. 2003. "Treatment of Sensitive Issues in RTAs: The Case of Agriculture". *PECC Trade Forum*, Washington, D. C.
- Srinivasan, T.N. 1994. Srinivasan, T.N. 1994, 'Regional Trading Arrangements and Beyond: Exploring Some Option for South-Asia: Theory, Empirics and Policy'. *Report No. IDB-142. South-Asia Region*, World Bank.
- Srinivasan, T.N. and G. Canonero. 1993. "Preferential Trade Arrangements: Estimating the Effects on South Asia Countries". *World Bank*, mimeo.
- WTO. 2000. *Mapping of regional trade agreement*. Committee on regional trade agreement, www.wto.org , wt/reg/w/41.
- WTO. 2004. *The Future of the WTO: Addressing Institutional Challenges in the New Millennium*. Report by the Consultative Board (Chairman: Peter Sutherland) to the Director-General, Supachai, Panitchpakdi.
- WTO. 2006. www.wto.org/tratop-e/region_e/summary_e.xls.
- World Bank. 2005. *Global Economic Prospects: Trade, Regionalism, and Development*. Washington, DC.

- DP#113-2006 *FDI and Spillover Effects in the Indian Pharmaceutical Industry* by Annika Bergman
- DP#112-2006 *Regional Cooperation for Asian Energy Security* by Vipul Tuli
- DP#111-2006 *Demographic Complementarities and Outsourcing: Implications and Challenges for India* by Mukul G. Asher and Amarendu Nandy
- DP#110-2006 *Reinventing UNCTAD: Some Proposals for the UNCTAD Mid-term Review* by Muchkund Dubey
- DP#109-2006 *Trade Facilitation Priorities in India and Commitments at WTO: An Overview of Current Trends* by Sachin Chaturvedi
- DP#108-2006 *Towards Comprehensive Economic Co-operation between India and Central Asian Republics* by Dr. Ramgopal Agarwala
- DP#107-2006 *Monetary and Financial Cooperation in Asia: Emerging Trends and Prospects* by Ramkishen S. Rajan
- DP#106-2006 *Japan and an Asian Economic Community* by Masanori Kondo
- DP#105-2005 *India-Vietnam Trade: Current Relations and Prospects* by Rajesh Mehta
- DP#104-2005 *Trade in IBSA Economic Cooperation: The Role of Transportation Linkages* by Prabir De
- DP#103-2005 *Trade and Environment in the WTO: Negotiating Options for Developing Countries* by Sanjay Kumar and Nupur Chowdhury
- DP#102-2005 *Prospects for Environmental Trade under the Regional Process in South Asia: Evidence from SAPTA and Proposals for SAFTA* by S. K. Mohanty and Sachin Chaturvedi
- DP#101-2005 *Emergence of China and India in the new Millennium: Will it facilitate Market Access for LDCs and Developing Countries?* by S. K. Mohanty and Sachin Chaturvedi
- DP#100-2005 *Towards a Broader Asian Community: Agenda for the East Asia Summit* by Nagesh Kumar
- DP#99-2005 *Biosafety Protocol, International Trade and Agricultural Biotechnology: Policy Inferences for India* by Sachin Chaturvedi and Lian Chawii
- DP#98-2005 *The WTO Negotiations on Industrial Tariffs: What is at Stake for Developing Countries?* by Yilmaz Akyüz
- DP#97-2005 *Non-tariff Barriers Affecting India's Exports* by Rajesh Mehta

DP#96-2005 *Advancing the ASEAN-India Partnership in the New Millennium* by Ong Keng Yong

DP#95-2005 *The Search for Regional Architecture: The Role of ASEAN as Strange Attractor* by Djisman S. Simanjuntak

DP#94-2005 *India-Central Asia Economic Relations: A Report of RIS/CII Seminar*

DP#93-2005 *Asian Energy Outlook to 2020: Trends, Patterns and Imperatives of Regional Cooperation* by Kokichi Ito, Li Zhidong and Ryoichi Komiyama

DP#92-2005 *Regional Trade and Investment Architecture in Asia-Pacific: Emerging Trends and Imperatives* by Tiziana Bonapace

DP#91-2005 *India-East Asia Integration: A Win-Win for Asia* by Mukul G. Asher and Rahul Sen

DP#90-2005 *Strategic Relevance of Asian Economic Integration* by Eric Teo Chu Cheow

DP#89-2005 *China's Role in the Asian Economic Unification Process* by Yao Chao Cheng

DP#88-2005 *Strategic Approach to Strengthening the International Competitiveness in Knowledge Based Industries: Electronics Industry* by K. J. Joseph

DP#87-2004 *Regional Cooperation for Poverty Alleviation and Food Security in South Asia* by Sachin Chaturvedi

DP#86-2004 *Towards a Free Trade Area in South Asia: Charting A Feasible Course for Trade Liberalisation with Reference to India's Role* by Indra Nath Mukherji

DP#85-2004 *Industrial Restructuring and Export Competitiveness of the Textiles and Clothing Sector in SAARC in the Context of MFA Phase-Out* by Ram Upendra Das

DP#84-2004 *India's Export by Countries and Commodities: On the Estimation of a Forecasting Model Using Panel Data* by Rajesh Mehta and Parul Mathur

DP#83-2004 *Strategic Approach to Strengthening the International Competitiveness in Knowledge Based Industries: Indian Chemical Industry* by Vijay Kumar Kaul

DP#82-2004 *Strategic approach to Strengthening the International Competitiveness in Knowledge Based Industries: The Case of Indian Automotive Industry* by Neelam Singh

DP#81-2004 *Strategic approach to Strengthening the International Competitiveness in Knowledge Based Industries: Non-electrical Machinery Industry* by M. Padma Suresh

DP#80-2004 *Strategic approach to Strengthening the International Competitiveness in Knowledge Based Industries: The Indian Pharmaceutical industry* by Aradhna Aggarwal

DP#79-2004 *Complementarities and Potentials of Intra-regional Transfers of Investments, Technology and Skills in Asia* by Saikat Sinha Roy

DP#78-2004 *Towards Formation of Close Economic Cooperation among Asian Countries* by S K Mohanty, Sanjib Pohit and Saikat Sinha Roy

DP#77-2004 *Transaction Costs as Barriers to Economic Integration in Asia: An Empirical Exploration* by Prabir De.

DP#76-2004 *Transforming Digital Divide into Digital Dividend: The Role of South-South Cooperation in ICTs* by K J Joseph.

DP#75-2004 *Transport Cooperation in BIMST-EC: Issues and Way Forward* by Prabir De.

DP#74-2004 *WTO Market Access Negotiations and Indian Small Scale Industry* by Rajesh Mehta and Pooja Agarwal.

DP#73-2004 *ASEAN-India Economic Relations: Current Status and Future Prospects* by Rahul Sen, Mukul G. Asher and Ramkishan S. Rajan.

DP#72-2004 *National Innovation Systems and India's IT Capability: Are there any lessons for ASEAN Newcomers?* by Nagesh Kumar and K J Joseph.

DP#71-2004 *Monetary Cooperation in South Asia: Potential and Prospects* by Sweta Chaman Saxena and Mirza Allim Baig

DP# 70-2004 *India-ASEAN Cooperation in Information and Communication Technologies: Issues and Prospects* by K.J. Joseph and Govindan Parayil

DP# 69-2004 *Issue Related to India's Energy Trading with Central Asian Countries* by Barnali Nag.

DP# 68-2004 *Biotechnology in South Asia: Issues, Concerns and Opportunities* by Sachin Chaturvedi.

DP# 67-2004 *Environment Issues in Free Trade Agreements in Asia and the Post-Cancun Challenges: Issues and Policy Options* by Sachin Chaturvedi

DP# 66-2003 *How Do Infrastructure Facilities Affect Regional Income? An Investigation with South Asian Countries* by Prabir De.

DP# 65-2003 *Liberalization, Foreign Direct Investment Flows and Economic Development: The Indian Experience in the 1990s* by Nagesh Kumar.