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## Regional Trade Agreements: India's Initiatives

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### ABSTRACT

*This theoretical paper tries to illuminate the versatile journey of India's initiatives towards regionalism. One of the most striking developments in the world trading system since mid 1990s is a surge in regional trade agreements (RTAs) due to slow progress of WTO trade negotiations and increasing dominance/discrimination towards developing/less developed countries (LDCs) by developed countries under World Trade Organisation (WTO) pushed these countries to cooperate at regional level instead of multilateral. Regionalism helps to develop all aspects of developing and LDCs. India is also not untouched with this development. In 1975, India entered into its first regional agreement in 1975 when it signed the Bangkok Agreement. Thereafter, process of India's engagement in regionalism grows by leaps and bounds. India has signed SAARC, ASEAN-India FTA, numerous bilateral and regional trade agreements. India is still negotiating more preferential and free trade agreement with various countries. After regionalism, the whole environment is going on change. Trade relations continued to improve among bloc members.*

**Key Words:** Regionalism; Developments; Progress; Dominance; Aspects; Change.

### INTRODUCTION

Economic cooperation at regional level i.e. regional trade agreements<sup>i</sup> (RTAs), especially among developing countries like India, accelerate the growth level, enlarge market size, provide positive-sum game, improve allocation and proper utilisation of their natural, human and technological resources, increase efficiency, stimulate competition, facilitate the level of integration and explore potential areas for further cooperation, expand intra and extra regional trade, exploit the potential of complementarities, facilitate the level of integration among services enterprises, academic and research institutions, professional and technical experts and the common people. These trade agreements are considered as facilitator to achieve the ultimate goal of World Trade Organisation (WTO) and complement of it (Gupta, 2002).

These countries are confronted with several problems such as unfavourable balance of payment, instability in prices of primary products, poverty, unemployment, low level of per capita income, slow growth, etc. These economies are largely reliant on the markets of developed countries and have to face uncertain outcomes and growth prospects in major markets for their products. Large markets that will provide the basis for industrial investment did not occur in these economies without cooperation. Economic cooperation also provides stems from the doctrine of comparative advantages, which states that each country has some line of activity in which it has relative advantage.<sup>ii</sup> Cooperation also gives member countries with a new opportunity, namely

access to modern technology because developing economies do not undertake research and development due to lack of resources.

Economic cooperation among developing countries thus becomes a means by which they can strive for the goals that each country cannot reach on its own. Like other developing countries, India, as a founder of WTO, was mainly dependent upon liberalisation steps taken at multilateral level for export growth and was not part of any active trading bloc. However from 1995 onwards, increase in the number of regional trading blocs because of dissatisfaction, uncertain outcomes of the GATT/Uruguay Round negotiations and other factors and led to trade diversion owing to increasing trade inwardness of the blocs, and conflict over rules of origin was a major point of concern. India also raised its voice over circumvention of procedural liberalisation undertaken due to RTAs at several occasions.<sup>iii</sup> Its decision to stay loyal to the process of multilateral liberalisation has been praised by WTO at that time.<sup>iv</sup> However, since the experience at Doha and Cancun round, India started to get involved in various forms of preferential trade agreements (PTAs) in order to ensure an assured export market and to enhance bilateral relation with other developing countries. At early stage, India adopted a very cautious approach for regionalism and was engaged in only a few bilateral and preferential trade agreements. But after growing the importance and rise in number of regional agreements at global level, as a result of countries willingness to enhance and foster trade relations with other nations, also developed intention in India to integrate with these blocs. The interactions have ranged from bilateralism to sub-regional to regionalism.

In Asia, India entered into its first regional agreement in 1975 when it signed the Bangkok Agreement. The objectives of this agreement are to boost trade among the developing members of Economic and Social Commission for Asia and the Pacific (ESCAP) and strengthen political and international economic cooperation through the adoption of mutually beneficial trade liberalisation measures consistent with their respective present and future development and trade needs.<sup>v</sup> It involved Bangladesh, India, Lao PDR (People's Democratic Republic of), South Korea (Republic of Korea) and Sri Lanka. This agreement was signed before the agreement on Enabling Clause decision of the GATT was agreed upon in 1979.<sup>vi</sup>

After Bangkok Agreement, trade relation among member countries continued to improve. Trade negotiations/ministerial meetings continued to conduct to boost trade by reduction/removal of tariff rate and non-tariff barriers (NTBs). Member countries follow the product list and product by product for tariff concessions on goods.<sup>vii</sup> Main objective of these trade negotiations is boost intra and extra regional trade. China became member of Bangkok Agreement in 2001 and Mongolia in 2013. In 2005, it was reincarnated as the Asia-Pacific Trade Agreement (APTA). In 2014, China urged quick action to plan and create an Asia-Pacific Free Trade Area (FTA). APTA is the only operational trade agreement involving People's Republic of China and India and other major markets such as South Korea, Lao PDR, Sri Lanka and Mongolia.<sup>viii</sup> Since inception, APTA has become a significant trading bloc of India. By 2017, four rounds of APTA negotiations have been completed.

South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka) formed South Asian Association for Regional Cooperation (SAARC) on December 7-8, 1985 in Dhaka. It (SAARC) is set up for the purpose of holding periodic regional consultations on the matters of mutual interest and to accelerate the pace of socio-economic and cultural development through

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collective action in agreed areas of cooperation, sign regional and bilateral agreements/politics<sup>ix</sup> (Walikar, 2014).

At the initial stage, SAARC focused its works entirely on health, population, cultural exchange and sports. With the passage of time, member countries wanted to enhance the level of integration. South Asia Preferential Trade Agreement (SAPTA) was signed in 1993 in this response and came into operation in 1995 after a decade the formation of SAARC. SAPTA reflected the desire of the SACs to promote and enhance mutual trade and economic cooperation within the SAARC region through the exchange of concessions and elimination of trade barriers. After a decade of SAPTA, SAFTA came into existence on 6<sup>th</sup> January 2004 and came into force on 1<sup>st</sup> January 2006. Afghanistan became a member of SAARC during the fourteenth SAARC Summit held in Delhi (India) in April 2007. Among SAARC, India has potential to develop the whole region. India is large in area wise and touched the boundaries of all members of SAARC except Afghanistan.

In 1991, India announced its Look East Policy (LEP) presently renamed as Act East Policy (AEP) in an attempt to intensify its economic relations with East Asian Countries (EACs). India became a sectoral dialogue partner of Association of South East Asian Nation (ASEAN) in 1992. ASEAN, which is a geo-political and economic organisation with 10 member countries, was formed in August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, the membership has expanded to include Brunei Darussalam, Cambodia, the Lao PDR, Myanmar and Vietnam. Mutual interest led ASEAN to invite India to become its full dialogue partner during the 5<sup>th</sup> ASEAN Summit in Bangkok in 1995. India also became a member of the ASEAN Regional Forum (ARF) in 1996.

Thereafter, India and ASEAN signed a framework agreement i.e. Comprehensive Economic Cooperation Agreement (CECA<sup>x</sup>) on 8 October 2003 in Bali, Indonesia with an objective to boost trade and enhance economic cooperation. This agreement served as legal basis to conclude further agreements include trade in goods (TIG), services and investment agreement that form the ASEAN-India FTA. Negotiations on a TIG agreement between India and ASEAN were started in March 2004 and continued for six years. Finally, India signed FTA of goods with ASEAN bloc on 13 August 2009 in Bangkok (Thailand) that entered into force on 1 January 2010 in the case of Malaysia, Singapore and Thailand. For the remaining ASEAN members it came into force on 1 June, 2010 for Vietnam, 1 September, 2010 for Myanmar, 1 October, 2010 for Indonesia, 1 November, 2010 for Brunei, 24 January, 2011 for Laos, 1 June, 2011 for Philippines and 29 July, 2011 for Cambodia (Fifield, 1979; Turnbull, 1999; Narine, 2002a). This FTA has given pave for the creation of one of the world's largest free trade areas (FTA) with almost 1.8 billion people and a combined GDP of US\$ 4.5 trillion.

During the 10<sup>th</sup> ASEAN-India Summit in November 2012, the ASEAN-India Leaders tasked their economic ministers to step up their efforts and flexibility to conclude the ASEAN-India Trade in Services and Investment Agreements at the earliest. Upon being signed by all parties in September 2014 after two years of discussions, the Agreements came into force on 1 July 2015. The ASEAN-India Investment Agreement was also signed in November 2014. India-ASEAN trade and investment relations have been growing rapidly, with being India's fourth largest trading partner. The initiative to form Bangladesh-India-Sri Lanka-Thailand- Economic Cooperation (BIST-EC) was taken by Thailand in 1994 to explore economic cooperation on a

sub-regional level. Myanmar became its member in December 1997 and the name of group changed to BIMST-EC. BIMST-EC is visualized as a bridging link between two major grouping i.e. ASEAN and SAARC. Later on Bhutan and Nepal joined in June 2004. In the first summit as on 31 July 2004, leaders of the member countries changed the name of the group to BIMSTEC (Bengal Initiatives for Multi Sectoral Technical and Economic Cooperation) from BIMST-EC. It has identified 14 areas of cooperation in which India is lead country for transport & communication, tourism, environment & disaster management and counter terrorism & transitional crime. Member countries aim to sign free trade area by 2017.

India signed its first bilateral FTA with Sri Lanka i.e. India-Sri Lanka Free Trade Agreement (ISLFTA) in 1998 that came into effect in March 2000. Its main objective is to boost trade between countries and harmonious development of economic relations between them. It is formulated on the negative list (no concessions) approach; each country extends tariff concessions/preference to all commodities except those indicated in its negative list. Both agreed for preferential treatment on 5,112 tariff lines. The preferential trade under the FTA is governed by Rules of Origin (RoO) which specify the criteria for a product to qualify for tariff concessions from the importing member. After signing of ISLFTA, bilateral trade increased manifold both in terms of volume and percentage. Following these positive turn of things, the two governments in 2002 decided to set up a joint study group (JSG) to explore possibilities of starting negotiations for a comprehensive economic partnership agreement (CEPA<sup>xi</sup>), modelled on the India-Singapore CECA. Based on the report of the JSG in October 2003, the two countries began negotiations on a CEPA with an objective to widen and deepen the existing FTA and establish an agreement on trade in services, including measures for promotion of investment in each other's countries and enhancing economic cooperation, establish in early 2005. Thirteen rounds of negotiations have been completed, the last round having been held in Colombo on July 8, 2008. Following the last technical level meeting, the Commerce Secretaries of the two countries met on July 9, 2008 to finalise the remaining issues and officially declared that CEPA negotiations have been completed. However, the agreement is yet to be signed. The two countries are enjoying a robust trade and investment relation.

A framework agreement was signed between India and Common Market of South America (Mercosur) on 17 June, 2003 in Asuncion, Paraguay (Laird, 1997; Zylbersztajn and Jank, 1998; Malamud, 2001). This marked the first step between the parties towards the creation of an FTA. Thereafter, a PTA between India and Mercosur signed in New Delhi on January 25, 2004 with an objective to strengthen and expand bilateral trade relations between them by lowering tariff on a wide range of goods. This agreement came into effect from 1 June, 2009. It consists of five annexure. The first two are the offer list of product categories subject to tariff concessions of Mercosur and India. India agreed to offer preferential access to 450 products while that of Mercosur has 452 products. Annexure 3 refers to rules of origin (RoO), annexure 4 is on safeguard measures and last 5 deals with dispute settlement procedure.

India wants to expand the PTA i.e. FTA with Mercosur but progress remains slow. A comprehensive FTA will enable more cost efficient shipping services too, besides enhancing bilateral investments. In this response, India presented a list for expansion of the PTA with 3,690 products. Mercosur presented 1,287 lines but never came up with a supplementary list and negotiations stagnated. In recent i.e. on 6 March 2016, India has informed the WTO in the meeting of committee on trade and development that it is in the process of expanding its trade

agreement with Mercosur to cover a sizeable portion of bilateral trade i.e. by increasing the number of tariff lines. Several WTO members raised question<sup>xiii</sup> about this agreement between India and Mercosur.

India has strong relations with Afghanistan based on historical and cultural links. Since 2001, India has helped Afghanistan substantially in its reconstruction and rehabilitation. Both have signed Strategic Partnership Agreement (SPA) in 2011 that provide assistance to help rebuild Afghanistan infrastructure, education, boost investment etc. Moreover, both also signed agreement on peaceful use of outer space technology and also on cooperation on commercial and civil matters. Trade between them amounted to US\$ 643 million in 2015-16. Recently 2016, both have reached an agreement for establishment of an air corridor to send Afghan goods through the air.

India and Gulf Cooperation Council (GCC) (comprises Kuwait, United Arab Emirates (UAE), Saudi Arabia, Oman, Bahrain and Qatar) signed a framework agreement on economic cooperation in New Delhi on 25 August, 2004 to extend and liberalise trade relation and also initiate negotiations on the feasibility of a FTA between them. In recent meeting in New York, external minister of India called for the early finalisation of the India-GCC FTA. India-GCC relationship is growing stronger by the day as both realise the potential and importance of each other. India plays a vital role in the stability, security and economic well-being of the gulf.

India and Singapore signed CECA on 29 June 2005 by the Prime Minister Mr. Manmohan Singh and H.E. Mr. Lee Hesien Loony, President of Singapore to enhance trade and investment ties between them. The CECA comprises a FTA in the trade of goods and services, a bilateral agreement on investment promotion, protection and cooperation and an improved double taxation avoidance agreement. It was Singapore's first comprehensive economic pact with a South Asian Country. India has close and trouble free relations only with landlocked kingdom i.e. Bhutan since 1949 under Treaty of Peace and Friendship. This treaty helped to enhance their integration i.e. FTA signed between them in goods in 2006.

India and Bangladesh are good neighbours and both are members of SAARC and several other regional blocs e.g. BIMSTEC, IOR-ARC etc. India was the first country to recognise Bangladesh as a separate and independent state. India established diplomatic relations with the country immediately after its independent in December 1971. The first indo-Bangladesh trade agreement signed on March 1972 provides for border trade for the people within the 16-kilometer belt of the border between West Bengal, Assam, Meghalaya, Tripura and Mizoram on one hand and Bangladesh on the other hand. After that, a bilateral trade agreement between Bangladesh and India was signed in 1980 and was later amended and formalised in March 2006. This came into force on April 1, 2006 and was valid till March 2009 (Rather and Gupta, 2014). The year 2015 had been incredible for India-Bangladesh relations because both signed land boundary agreement (LBA) which opened a new era in their relations.

India and Chile signed PTA as on 8 March, 2006 that came into force in August 2007. In the original PTA, India's offer list to Chile consisted of 178 tariff lines the Margin of Preference (MoP) ranging from 10%-50% at 8 digit level. Similarly, Chile's offer list consisted of 296 tariff lines with MoP ranging from 10% to 100% at 8 digit levels. With an aim to help in doubling of exports to the Latin American Countries (LACs), India has signed an agreement with Chile to expand the India-Chile PTA on 6 September 2016, making a 10-fold jump in the member of

products to be traded in concessional duty rate. The union cabinet had approved the expansion of PTA. Chile has offered concessions to India on 1,798 tariff lines with duty cuts that 30%-100% lower than existing customs duty for various products. In reciprocal, India has offered concessions to Chile on 1,031 tariff lines with duties 10%-100% lower than the present import duties. Both are enjoying friendly and cooperative relations. Bilateral trade has grown substantially.

Over the years, India's relations with East Asia especially with Japan-South Korea (Republic of Korea) also gained momentum in the post liberalisation phase. However, a more much focused approach to deepen India's engagement with East Asia only began after 2000. Since then both in economic and defence terms, India's relations with Japan and Korea have blossomed. India signed a CEPA with Japan in 2010 that came into effect on 9 August 2011. It is one of the most comprehensive of all such agreements concluded by India and covers not only trade in goods but important area of trade in services, investment, intellectual property rights, custom procedure and other trade related issues. India is a major recipient of Japanese official development assistance (ODA) and has also attracted significant investment from it. Under Make in India, Japan is committed to increase investment in India by US\$ 35 billion in the next five years to boost bilateral trade relations.

India-South Korea trade relationship is also growing significantly. A CEPA was signed between the two sides on 7 August 2009 (in Seoul) after over three years of negotiations and came into effect in January 2010. Its main objectives are to slash tariffs, encourage investment and promote exchange of skills in a bid to double fast growing commerce over the next decade between two Asia's biggest economies. After that cooperation moved beyond trade and investment to infrastructure development and cooperation in financial sectors. Both are reviewed their FTA with a view to further strengthen bilateral economic ties. India is one of the cooperating partners of Common Market for East and Southern Africa (COMESA). India signed memorandum of understanding (MoU) for long term economic and technical cooperation with the COMESA in February 2003. COMESA is Africa's largest economic community comprising of 19 members. Joint study group (JSG) is set to examine the feasibility of a PTA/FTA between India and COMESA.

India is negotiating a CECA covering trade in goods, services, investment and related issues with New Zealand. A FTA between India and New Zealand is more on track than ever before. It is expected that both countries will reap the benefited. India already emerged as one of the major trading partner of New Zealand in recent times. India is Malaysia's largest trading partner among countries of south, excluding ASEAN and China. Malaysia has emerged as India's second largest trading partner in the ASEAN after Singapore. India and Malaysia are on excellently friendly terms with each others. Both have signed CECA on 27 October 2010 in Kula Lumpur, Malaysia that came into force on 1 July, 2011.

India is Mauritius' largest trading partner and has been the largest exporter of goods and services to Mauritius since 2007. Both have signed a wide range of bilateral agreements and memorandum of understanding (MoU). The India-Australia trade link goes back to the colonial period. Trade is growing exponentially between them. India is Australia's largest export market for gold and chickpeas. Negotiations to conclude CECA/FTA (trade in goods, services and investment) between them started on April 29, 2011 to boost bilateral trade and investment, till

completed nine rounds and the most recent was held in September 2015. It is expected that CECA between India and Australia is likely to be finalised.

Thailand is an important trading partner of India. India and Thailand share age old bonds of cultural affinity, commercial interests and common perceptions on various issues. Both have signed framework agreement to establish FTA in Bangkok on 9 October 2003 and came into force on January 2004. Five rounds of negotiations of India-South African Custom Union (SACU) that comprises South Africa, Lesotho, Switzerland, Botswana and Namibia have been held. The agreement is still at the negotiation stage. Israel has become one of India's most important partners particularly in critical areas of security, defence, agriculture and water management. Both have shown strong desire and political will to conclude an FTA. In recent years, bilateral ties have extended to areas such as education, science and technology and homeland security. India and Israel are still negotiating a FTA. India and Canada have longstanding bilateral relationship based on shared domestic values, multi-cultural, multi-ethnic and multi-religious nature of the two societies and strong people to people contacts. Both are negotiating a CEPA since 2010 but still under negotiation. A brief overview of India's engagement in bilateral as well as regional trade agreements (operational and under negotiations) is shown in following table-1.

**Table-1 India's Engagement in Bilateral and Regional Trade Agreements**

<b>Regional Trade Agreements in Force</b>	<b>Regional Trade Agreements Under Negotiation</b>
Association of South East Nations (ASEAN) - India Free Trade Agreement	India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CEPA)
South Asia Free Trade Agreement (SAFTA)	India-South African Customs Union (SACU) Preferential Trade Agreement
Asia Pacific Trade Agreement (APTA)	India-Pakistan Trading Agreement
India-MERCOSUR	India-EU
India-Sri Lanka	India-EFTA
India-Thailand Comprehensive Economic Cooperation Agreement (IT-CECA)	India-New Zealand
India-Nepal	India-Canada
India-Singapore	BIMSTEC
India-Chile	India-GCC
India-Afghanistan	India-Australia

India-Bhutan	India-Indonesia
India-Japan	India-Israel
India-Korea, Republic of	India-Finland
India-Malaysia	India-Africa Trade Agreement
India-Maldives	India-Egypt
GSTP	

## CONCLUSION

Since 1990, regional trade agreements mushroomed in different parts of the world because of frustration, dissatisfaction, uncertain outcomes of the GATT/Uruguay Round negotiations and other factors. India recognised the importance of regional cooperation very late and jumped on this bandwagon effect. India has signed its first trade agreement with Asia Pacific region, then come towards south Asia region. Thereafter, under look east policy, India signed its free trade agreement with ASEAN bloc. This process it still continues. India has signed numerous bilateral and regional trade agreements as discussed above. After agreements, India's trade relations have improved. India is almost a member of every bloc. India's trade continued to increase with each bloc member as well bloc collectively.

## DECLARATION

I sadhna here declared that this paper is original and not elsewhere submitted for publication.

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#### ENDNOTES

- i A regional trade agreement is an economic agreement between two or more nations to facilitate trade among member countries by reducing tariff and Non-tariff Barriers on selected products. These agreements could be mutually beneficial to both countries, liberalise trade and set higher benchmarks for the multilateralism.
- ii O.E.C.D, Economic Integration among developing countries, Development Centre Studies, Paris 1969,128-129
- iii India and WTO, 1(8), August 1999, pp. 3.
- iv The WTO Annual Report (2003) praised the believes in multilateral by saying "As some members (notably Australia, Hong Kong, China, India and Singapore) have shown, unilateral liberalization can also be in their national interest", p.11. It also stressed "As on June 2012, only for WTO members-Japan, Hong Kong, China, Macau and Mongolia were not part to a regional trade agreement", pp.37.
- v [http://www.jus.uio.no/english/services/library/treaties/09/905/asia\\_pacific\\_trade\\_ag.xml](http://www.jus.uio.no/english/services/library/treaties/09/905/asia_pacific_trade_ag.xml)
- vi [http://www.unescap.org/sites/default/files/06\\_Study%20on%20APTA%20benefits%20for%20Malaysia\\_Thailand\\_Vietnam%20\\_Feb%202009\\_.pdf](http://www.unescap.org/sites/default/files/06_Study%20on%20APTA%20benefits%20for%20Malaysia_Thailand_Vietnam%20_Feb%202009_.pdf)
- vii <http://www.unescap.org/sites/default/files/bulletin03-04-ch4.pdf>
- viii <http://en.reingex.com/Asia-APTA-Pacific-Trade-Agreement.shtml>
- ix file:///C:/Users/user/Downloads/05(13).pdf

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- x CECA is an agreement signed by India with many countries to facilitate trade in goods where both the countries agree to offer some concessions to each other.
  - xi CEPA is more comprehensive than CECA and covers both goods and services and also offer facilities to encourage trade related investments.
  - xii Question means how mutual recognition of Mercosur for food safety and animal and plant health is implemented.

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