# India's Involvement in Regional Trade Agreements: Is it a Second Best Strategy?

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**Abstract**

There is no systematic evidence that 'trade creation' will always outweigh the 'trade diversion' effect while countries are engaged in regional trade agreements (RTAs). Despite that countries are now rapidly engaged in various RTAs which include even partners beyond their own region. India's engagement in various RTAs may be due to the effect of 'competitive regionalism' which is apparent in Asia-Pacific region or alternatively shaping up the strategy of reducing MFN rate. Moreover, India is taking up RTA route to push exports of service sector as well. The current analysis makes an attempt to assess nitty-gritty of RTAs where India is involved and explore its strategy in details considering its regional preference, timeline, product coverage etc.

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## I. Introduction

Regional cooperation across countries enhances the trade potential among themselves, apart from helping them to realize economies of scale and greater specialization in production by overcoming the smallness of domestic markets (ESCAP 2004). This could explain the recent upsurge in the number of Regional Trade Agreements (RTAs).[i] The advantages of regional integration for WTO members have become all the more lucrative recently given the modest outcome of the Hong Kong Ministerial (2005) and the slow progress of multilateral negotiations thereafter. Though article XXIV of GATT and V of GATS allow countries to form RTAs, many developing countries took the advantage of "Enabling Clause" which permits significant relaxation of the conditions for RTA-formation involving only developing countries regarding coverage of trade, tariff reduction commitments etc. The number of RTAs is increasing by leaps and bounds despite the fact that there is no systematic evidence that 'trade creation' will always outweigh the 'trade diversion' effect.[ii]

Asia-Pacific economies in general have derived significant gain through trade liberalization (regional as well as unilateral). Though multilateral process is also combined with this effort, most of the countries do not want to remain outside the purview of RTAs due to the presumption of net gains which made others join PTAs (the domino effect). Also competitive liberalization in the region has created a force and pressure on many countries to follow suit. This has created an environment of 'competitive regionalism' in which liberalizing countries joined together and sought a broader agreement going beyond the idea of securing trade interest only (Bonapace and Mikic, 2006). Despite the density of several Asia-Pacific agreements (both bilateral and sub-regional), for the time being, at least, it appears that the agreements in force are relatively light. The agreements hardly cover all tradable goods and services; bypass investment, and contain restrictive rules of origin (ROOs). Most PTAs look for complete elimination of trade barriers after 2010 and some beyond 2015. Relatively poorer countries are making an effort to bring balance between unilateral and regional liberalization policy and seek a longer time to liberalise completely.

Of late, several countries are adopting deeper cooperation (focusing on investment and services) bilaterally through Comprehensive Economic Cooperation Agreements (CECA). However, debates have been generated regarding the success of investment agreements vis-à-vis attracting FDI through unilateral liberalization. Overflow of investment rules along with trade related investment measures (TRIMS) and establishment of commercial presence under mode 3 of GATS create confusion among policy makers. Integration efforts have generated sufficient investment opportunities in Asian region both in case of production and infrastructure development including transport system, but intra-regional investment (mainly south –south investment) is yet to take off. Despite investment opportunities in service sector, services negotiation in most cases are yet to resolve all the related issues such as positive list, nature of trade barriers,

safeguard measures, associated issues such as movement of natural persons and mutual recognition of professionals etc., thereby leading to lower intra-regional investment realization.

In addition, the negotiation regarding ROOs takes long time and many RTAs bring forth a complicated regime having both 'value addition' based rules as well as 'product specific' rules. Existing ROOs act as a considerable NTM since the costs of compliance are high, involving very complex procedures and compliance with stringent norms.[iii] Also, proliferation of overlapping RTAs created complexity due to multiple ROOs.

India is a relatively late entrant in RTA race. Currently, it is negotiating a number of RTAs, spread over Asia, Africa and Latin America. While this move would help India to gain market access in partner countries, it nonetheless has to compete with other RTA-partners in the importing country market (e.g. – China in ASEAN). During the negotiation of RTAs, India is confronting several issues such as long negative list, overlapping ROOs, etc. It has also slowed down the RTA discussion for some countries (e.g. - China), while expressing interest with new partners (e.g. - Russia). Domestic sensitivity has become quite an important issue in India while preparation of list of products for negotiation. With this background, the paper makes an attempt to understand India's strategy towards its growing involvement with several trade blocs (and also bilateral PTAs) and analyse them in light of its overall trade policy.

The paper is arranged along the following lines. First, an analysis is done regarding the geographical spread of India's RTAs and its regional preferences. Then, timeline of these agreements, product coverage and issues related to ROOs are discussed. From this, India's possible strategy regarding regional cooperation is chalked out before the conclusion is drawn.

## II. India's Involvement in RTAs/BTAs: Geographical Spread

India's current major PTA / FTA participations, both operational as well as ongoing ones, are summarized in **Table 1**. India is also involved in various forms of PTAs with Afghanistan, Bangladesh, Bhutan, Mongolia and Nepal. While for some Asian blocs, a major part of the negotiations have been concluded, the discussion is going on for several other proposed collaborations.

The Joint Study Groups (JSG) for China and South Korea had recommended creation of an FTA and CECA respectively. An Economic Agreement with Japan is likely to follow shortly. JSGs are still analyzing the feasibility of a bilateral Economic Partnership Agreement and CECA in case of Indonesia and Malaysia respectively. Recently the possibility of PTAs with Canada and Russia is also being discussed. In coming future, a FTA negotiation with the EU may be initiated. Since 2003, also there have been discussions on India-Brazil-South Africa (IBSA) enhanced trade and energy cooperation, although no PTA has so far been reached. In July 2006, the Indian Cabinet cleared a proposal for negotiating a Comprehensive Free Trade Agreement (CFTA) with

SACU within a reasonable time, but little progress has been observed on that front. The PTA between India and Chile has been signed in March 2006, which may in future be extended FTA.

**Table 1: India's Involvement in RTAs – A Summery**

| Asia | Africa | Latin America |
|---|---|---|
| *Operational* | | |
| • Indo-Lanka FTA<br>• SAFTA<br>• Bangkok Agreement (Now APTA)<br>• India-Thailand FTA<br>• India-Singapore CECA | | |
| *Ongoing* | | |
| • India-GCC Framework Agreement on Economic Cooperation<br>• India-ASEAN CECA<br>• BIMSTEC FTA<br>• India-Australia Trade and Economic Framework Agreement<br>• Indo-Israel PTA | • India-SACU CFTA<br>• India-Mauritius CECPA | • Indo-MERCOSUR PTA<br>• Indo-Chile PTA |
| *Joint Study Group* | | |
| • China, Korea, Japan, Malaysia, Indonesia | | |

Constructed by Authors

## III. Analysis of India's Engagement in Different RTAs/BTAs

### IIIA. Regional Preference:

**Table 1** indicates that India's RTA agenda is heavily skewed towards Asian partners, given its region-wise trade orientation (see **Table2**). Moreover, in post financial crisis as ASEAN members are looking for internal demand oriented growth and it has given fresh opportunity to India to increase its export to them. West Asian countries are traditionally major trade partners of India and hence, India is making an effort to cement the increased export orientation with them through formation of RTAs with Gulf Cooperation Council (GCC).

Till now, India's most effective RTA engagements are SAFTA, India-ASEAN, India-Thailand, India-Sri Lanka and India-Singapore agreement. This is reflected in number of meetings India attended, its preparedness and the intensity with which it is engaged in negotiation. In the India-ASEAN FTA, the Trade Negotiation Committee already met more than 14 times. In case of Indo-Lanka FTA, the agreement is operational for more than five years now and these two countries are engaged to increase its coverage to include services and investment.

**Table 2: An Analysis of Trade Scenario between India and Proposed Partners – Continent-Wise**

(Percentage Share)

| Location of Countries | Export | | Import | |
|---|---|---|---|---|
| | 1996-97 | 2005-06 | 1996-97 | 2005-06 |
| *Implemented and Ongoing* | | | | |
| West Asia | 7.30 | 11.56 | 11.16 | 5.27 |
| South Asia | 5.08 | 5.24 | 0.61 | 0.91 |
| East And South-East Asia | 19.20 | 21.63 | 20.65 | 23.68 |
| Africa | 1.44 | 1.70 | 0.85 | 1.69 |
| Latin America | 0.84 | 1.44 | 1.16 | 1.40 |
| Overall | 33.86 | 41.58 | 34.42 | 32.96 |
| *New Interest* | | | | |
| Canada (North America) | 1.05 | 0.99 | 0.80 | 0.62 |
| Russia (Europe and Asia) | 2.42 | 0.71 | 1.35 | 1.36 |

Constructed from India's Trade Data

BIMSTEC as an FTA though missed the deadline; in terms of aspiration it is attractive to many South Asian countries. APTA has completed third round of negotiation and China's entry into it provided fresh momentum. On the contrary, India-SACU PTA is not moving forward. Similarly, although annexes for India-MERCOSUR agreement was were finalized in 2005, it is yet to be ratified in MERCOSUR. Same is true for India-Chile PTA, signed in 2006. Since India's effective RTA strategy is significantly biased towards Asian countries, it needs to keep the Chinese move in mind. In future, India has to compete with China for increasing trade share in ASEAN and even in SAARC, as observed from **Table 3.**

**Table 3: India and China's Trade Share (%) with ASEAN and SAARC**

| **Trade with ASEAN** | | | | |
|---|---|---|---|---|
| Category | Country | **2000** | **2002** | **2005** |
| Export Share of | India | 5.56 | 6.99 | 7.61 |
| | China | 5.36 | 7.33 | 7.05 |
| Import Share of | India | 11.53 | 10.16 | 9.57 |
| | China | 5.27 | 6.83 | 7.41 |
| **Trade with SAARC** | | | | |
| Export Share of | India | 4.39 | 5.28 | 5.39 |
| | China | 1.52 | 1.67 | 2.09 |
| Import Share of | India | 0.97 | 0.86 | 0.95 |
| | China | 0.84 | 0.98 | 1.63 |

Source: Calculated from data available in COMTRADE database

Export Share: % of 'Export to World' going to Trade groups (ASEAN/SAARC)

Import Share: % of 'Import from World' coming to Trade groups (ASEAN/SAARC)

## IIIB. Timeline

The implementation period of the PTAs/FTAs in Asia-Pacific region are usually spread over five to ten years, or even longer. These agreements provide room for special and differential treatment to LDCs providing longer time to eliminate tariff and offer safeguard measures and or concession regarding ROOs. Most of the recent agreements in the region attempt to reap benefits faster through 'early harvest scheme (EHS)' or 'fast track' products. However, India-centric agreements like Indo-Thai FTA witnessed apprehension over negative repercussions of EHS among Indian SMEs. In RTAs of Asia-Pacific region, most of the members would like to keep flexibilities through 'plans of action' rather than 'binding' commitments and 'sanctions' (as in EU). As a result of this, implementation often takes longer time than expected and sometimes it is even half-hearted.

The timeline of India's major RTA engagements are as follows. In case of BIMSTEC FTA, tariff elimination for developing countries under normal track would be achieved by June 2012, starting from July 2007. For Indo-Thai FTA, zero-duty imports would be achieved by 2010. SAFTA became operational from 2006 and the tariff liberalization programme is expected to be completed by 2013 for India, Pakistan and the Maldives; 2014 for Sri Lanka and 2016 for Bangladesh, Bhutan and Nepal. The discussion shows that most of the Asian RTAs would be converted into FTA between 2015-2020, thereby creating pressure on India to go by the same timeline in general. Hence, if the negotiation in existing RTAs is delayed or newer discussions are initiated with other Asian countries, India's flexibility regarding timeline will gradually get tightened.

## IIIC. Scuffle over Product Coverage: Looking into Select RTAs

The RTAs involving India mostly include developing countries and LDCs and hence the question of maintaining a safeguard provision to curb import under certain conditions was very important. Moreover, given the similarity in the structure of manufacturing output, mutual agreement on a negative / sensitive list for each country, which would be excluded from the tariff commitments, was necessary. India has directly and indirectly looked for a staggered approach towards tariff reduction; the product coverage to start with is not extensive but increases gradually. However, India's approach towards NTMs is not clear as in most of the RTAs the list of NTMs is not yet prepared, keeping aside the negotiation on them.

Looking into India's RTAs, SAFTA currently allows its members to maintain sensitive list (longer list for LDC) which may be reviewed in every four years to reduce its size. Moreover, the non-LDCs are supposed to compensate the LDCs for the revenue loss caused owing to the tariff reforms undertaken. BIMSTEC FTA adopted a sectoral initiative approach, where textile & clothing, drugs & pharmaceuticals, gems & jewelry, horticulture and floriculture products, processed foods, automotive industry & parts, rubber, tea & coffee, coconut and spices were identified for negotiation in addition to 'negative list' and 'safeguard list'. Interestingly, BIMSTEC does not have any provision

for revenue loss compensation to LDCs, resulting from tariff reductions and elimination as in case of SAFTA. Hence, it makes more sense for India and Sri Lanka to access Nepal and Bangladesh market through BIMSTEC FTA rather then SAFTA. This aspect contributed significantly in making the negotiation process longer. Indian domestic industry favoured incorporation of textile and completely-built units (CBUs) of all four-wheelers and two-wheelers from Thailand in the negative list.

Due to scuffle over negative list between India and ASEAN, India reduced its negative list from 1,414 to 854 items in mid-2006 and further to 600 products. Finally, this got settled to a negative list of 490 products with a trade value cap of 5%. The negotiations in trade in services and investment got delayed in the process as they would begin after conclusion of the agreement on trade in goods. In case of Indo-Lanka FTA, India and Sri Lanka agreed to have 429 and 1180 tariff lines in their negative list respectively. In APTA after three rounds, India has offered concession in total on 527 products and 48 products especially for LDC. In contrast to this, China offered concession on 1697 products and 161 products especially for LDCs.

Similarly in other PTAs, India's concession has been less compared to its partners. For example, in India-Chile PTA, India and Chile have offered concession on 178 and 296 tariff lines at HS 8 digit level respectively. In 2005, India and MERCOSUR agreed to give tariff concession to the partner on 450 and 452 tariff lines respectively.

## IIID. Rules of Origin

Usually three criteria may be followed for determining ROOs for the goods qualified for tariff preference: (1) Value-added method, (2) Change in Tariff Heading (CTH) and (3) Local Content requirement. However, the blocs may also prefer more than one criterion. Determining balanced ROOs is all the more important for India owing to the multiplicity of RTAs that it has entered into. For instance, it collaborates with Bangladesh through APTA, BIMSTEC and SAFTA; with Sri Lanka through APTA, BIMSTEC, ILFTA and SAFTA; with Thailand through BIMSTEC FTA, Indo-ASEAN FTA and Indo-Thai FTA. Therefore, unless properly specified, goods coming from one partner may be eligible for more than one ROOs norm, leading to future trade disputes. Already India and Sri Lanka has put forward their complaints regarding circumvention of ROO under ILFTA (Nag, 2006). The ambiguity in calculation of value-addition in ILFTA caused India to suffer in several traditional products of Kerala (Choudhury, 2006) like rubber, spice etc. Also despite the fact that Sri Lanka does not have copper mine, India's import of copper from it increased significantly owing to violations of ROOs norms (Guha Thakurta, 2007). Indian firms established in Sri Lanka exported back to India with little value addition on imported Indian copper scraps.

**Table 4** shows that the RTAs involving India mostly depend on the value-addition method for determining tariff preference. The effective strategy to handle the issues related to ROOs have not been debated significantly within the country as a result of which India's stand remains quite cursory in most of the trade negotiation. India preferred both the value addition and CTH method for ROOs determination, arguing that the value addition method alone is not adequate for the purpose as high wage rates or

high rent can increase the product value even without substantial physical value addition. However, the partners in APTA, BIMSTEC FTA, Indo-ASEAN FTA and Indo-Thai FTA did not agree with this view and only value addition norms were preferred for that purpose (FE, 2005). As more engagement in bilateral PTAs create overlapping rules, it is better that India should concentrate on full cumulation while calculating the value added part in RTAs such as BIMSTEC FTA and SAFTA.

**Table 4: Rules of Origin Provisions in Selected Indian BTAs/RTAs**

| Trade Agreement | Change in Tariff Classification | Specific Manufacturing Process | Local Value Addition | Cumulation |
|---|---|---|---|---|
| *Involving India* | | | | |
| Indo-Thailand FTA | Yes (or VA) – 4, 6 digit level product specific | - | 20–40 percent product specific FOB value | Bilateral |
| India-Sri Lanka FTA | Yes (or VA) – 4 digit level | - | 35 percent FOB value | Bilateral |
| APTA | No tariff heading change necessary | No specific process required | 45 percent FOB value (35 percent for LDC) | Full |

Source: Quoted from Bonapace and Mikic (2006)

## IV. Formulating India's RTA Strategy

UNCTAD (2005) noted that the share of intra-regional trade as a percentage of global trade is generally low in South-South Agreements vis-à-vis North-North Agreements. The extent of intra-regional trade across different RTAs is substantially low in Asia and Sub-Saharan Africa (Smith, 2004). ASEAN (23 percent) and MERCOSUR (18 percent) were cited as having attained and maintained a relatively high degree of intra-regional trade, while the same for Central American Common Market (CACM), West African Economic and Monetary Union (WAEMU), Caribbean Community and Common Market (CARICOM) and Southern Africa Development Community (SADC) has been moderate (10-14 percent). The same for SAARC is quite low (5-6 percent). The reasons behind this include underdeveloped supply capabilities, and the prevalence of similar and undiversified output structures amongst members of some RTAs, which reduces the trade potential amongst partners there. This latter reason has fuelled the growing appeal for involving cross-regional partners in RTAs. To some extent domino's effect in the region affected India but it played a very cautious role and made an effort to take the domestic constituency into confidence. Recent move towards formation of RTAs with developed countries (e.g. – Australia, Canada, EU) shows that cross-regional RTAs would be new choice of India in near future. Through RTAs/BTAs India would like to increase its share in the world trade, trade-GDP ratio and taking some of its partners into confidence for multilateral discussion at the WTO through developing common stand.

*Enhanced Trade*

Trade barriers in traditional export markets like EU and US (Mehta, 2005) and newer NTMs in emerging Asian markets (Saqib and Taneja, 2005) prompted India to

consider the RTA route. Moreover through this, India would like to push services and investment negotiation especially in East and South-East Asia. India's Trade Complementarity Index (TCI) (see **Table 5**) with South Asian countries, China, ASEAN members and North East Asian countries are generally increasing over 1999 to 2003, signifying a high trade potential (Nag, 2005).[iv] Quite interestingly, TCI gains are observed also in case of Argentina, Brazil and Uruguay, i.e., the major trading partners of India in Latin America. We already observed that India is providing significant importance to RTA formation in Asia, while the discussion is moving relatively slowly with countries from other regions.

**Table 5: India's Trade Complementarity Index (Export) with Select Partners**

| Partner | TCI 1999 | TCI 2003 | Partner | TCI 1999 | TCI 2003 |
|---|---|---|---|---|---|
| Agrentina | 27.18 | 33.79 | Nepal | 39.72 | 41.65 |
| Brazil | 25.29 | 31.76 | Saudi Arabia | 32.11 | 32.54 |
| China | 24.90 | 29.11 | Singapore | 21.81 | 28.26 |
| Indonesia | 29.01 | 35.37 | South Africa | 36.86 | 32.99 |
| Korea | 30.39 | 31.28 | Sri Lanka | 35.60 | 37.70 |
| Malaysia | 20.64 | 27.15 | Thailand | 28.66 | 29.78 |
| Maldives | 28.22 | 42.81 | Uruguay | 28.94 | 34.15 |

Calculated from India's Trade Data

However, even though India's trade share is low in other regions, there is a need to understand its export growth potential. Intra-industry trade (IIT)[v] as calculated in **Table 6** shows that India's trade in intermediate goods are quite high with south and south-east Asian countries (e.g. - ASEAN, BIMSTEC, China, SAARC). Interestingly, the figure is relatively at lower for India-SACU, India-Sri Lanka, India-Australia PTA. This is important for developing the product coverage. With South Africa, India's TCI has come down and also it has low IIT index. This shows that South Africa as a country should get relatively low importance in strategizing India's FTA policies. With MERCOSUR, IIT is low as trade is mainly on primary and agricultural products.

**Table 6: India's Intra-Industry Trade with Select Partners (2005)**

| Trade Bloc | IIT-Index | Trade Bloc | IIT-Index |
|---|---|---|---|
| ASEAN | 32.81 | SACU | 9.96 |
| Australia | 17.09 | SAFTA | 39.16 |
| BIMSTEC | 38.17 | Indo-Lanka FTA | 18.95 |
| China | 31.42 | Indo-Thai FTA | 27.20 |
| MERCOSUR | 22.28 | Indo-Singapore CECA | 25.24 |

Calculated from India's Trade Data

India's higher average tariff vis-à-vis its regional partners creates a feeling that India would be a net looser, as it has to reduce its tariff faster than the partners. However, India's gain would be larger only when it is able to address the NTMs on imports by its PTA/FTA partners. Only in Indo-ASEAN FTA the work has started with the preparation of the list of NTMs of each member. SAARC and BIMSTEC are yet to address this issue effectively.

*Other Issues*

We earlier mentioned that though Asian trade blocs are making an effort to bring investment under their purview (e.g. - Framework Agreement in ASEAN investment Area, 1998), the intra-regional flow of FDI remains relatively low. Same is true for India's FDI sources as well its outbound investment. Hence, the effect of India's effort in bringing investment on the table of negotiation is doubtful. In case of services, none of the regional negotiations has brought out a clear picture and resolved related issues. In case of trade facilitation (TF), although ASEAN has made attempts through ASEAN Custom Vision 2020, SAFTA is yet to develop the details of TF. In case of transit trade and transportation, BIMSTEC is making a special effort but SAFTA is still lagging behind despite this being a core issue. India may address these issues in Indo-Lanka CECA currently under negotiation, but it still lacks the strategy to strike a deal through give and take approach. ASEAN is providing significant importance towards energy cooperation (e.g ASEAN Power grid, Tran ASEAN gas pipeline). India needs to develop negotiating skill to address these issues in the forum of BIMSTEC, SAARC as well as in GCC.

India has been quite vocal since Doha Ministerial (2001) onwards (Chakraborty, 2005; Chakraborty and Sengupta, 2006) and subsequently joined a number of developing country collaborations (e.g. - ABI, G-20, G-33, G-110 and NAMA-11) for ensuring benefits from WTO negotiations. **Table 7** shows the dominance of India's RTA partners in developing country negotiating collaborations. India has already made several joint submissions with many of its trade bloc partners (Nag and Chakraborty, 2006), indicating another application of the RTA strategy.

**Table 7: India's Negotiating Collaborations and Regional Agreement Partners**

| Negotiating Alliance at WTO | Asian RTA Partners | Non-Asian RTA Partners |
|---|---|---|
| Like Minded Group (General) | Indonesia, Malaysia, Pakistan | - |
| G-20 (Agriculture) | Bangladesh, China, Indonesia, Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Thailand | Chile, Uruguay |
| G-33 (Agriculture) | China, Indonesia, Korea, Mongolia, Pakistan, Philippines, Sri Lanka, | Botswana |
| NAMA-11 (Non-Agriculture) | Indonesia, Philippines | Argentina, Brazil, Namibia, South Africa |
| ABI (Non-Agriculture) | - | Argentina, Brazil |
| G-24 (Services) | Indonesia, Malaysia, Pakistan, Philippines, Sri Lanka, Thailand | Argentina, Brazil, Paraguay, Uruguay |
| Friends of Geographical indications (TRIPS) | Pakistan, Sri Lanka and Thailand | - |

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## V. Way Forward

Looking at the blocs, it can be argued that India's interest in BIMSTEC is in energy and tourism; with Singapore in attracting FDI; with Sri Lanka in export of services such as banking, education and health; and with Thailand in creating a competitive market for its SME products, machineries and cooperation in electronic goods. India would make an attempt to get integrated with the East and South East Asia through ASEAN by bringing its MFN rates down to ASEAN level. Moreover, to open land border for surface transport, India's interest lies more in SAARC and BIMSTEC. Sub-regional stability is an important agenda for India, which might lead it to offer further market access to SAARC members. India is also making an effort to reduce its dependence on South East Asia through developing PTAs outside the region (e.g. – MERCOSUR, SACU, GCC). However, here India needs to work on negotiation related issues which include NTMs, ROOs, services etc.

India's strategy is very much in contrast to China which remains quite accommodating in multilateral forum while aggressive in RTAs especially with Asian countries. In case of ASEAN-China FTA (ACFTA), negotiation began in late 2001 and by 2002 it was signed and by 2006 all products under EHS are expected to have zero tariffs. By 2010 it will be an FTA with ASEAN-6 and by 2015 with other members. Negotiations on a dispute settlement mechanism were finalised in 2004 for implementation in 2005. In contrast to this, India has been quite vocal in WTO forum and vigorously negotiated several issues, but in case of RTAs, half-heartedness is apparent. With many countries the negotiation is taking unusually long time and with some it has slowed down. Hence, India's focus on regionalism has always remained a second priority vis-à-vis multilateralism. Perhaps, India is taking the RTA route to reduce its MFN rate. India cannot afford to abandon multilateralism as the EU and the US are the major importers of its services exports as well as the leading sources of FDI.

It is increasingly being felt that Asian integration will be different from that of EU as it is jointly driven by government as well as MNCs unlike led by supranational institutions as in the EU. The 'spaghetti bowl' of Asian RTAs may lead to 'hub and spokes' kind of situation where multiple hubs such as ASEAN, China and India in future may get involved tug of war economic power . In this context, India's role as an effective regional player is important and its involvement in RTAs/BTAs need to be studied from that perspective as well.

The serious data constraints in India are inhibiting meaningful empirical research to assess the domestic impact of trade agreements especially on output and employment. The trade and industry data are reported in terms of HS code and National Industrial Classification (NIC) codes respectively. As the matching between two sets of data is problematic, it is difficult to model the impact of tariff reduction on the production. Also, non-availability of updated input-output table is responsible for inability to understand the impact of technology change on various sectors due to trade liberalization. Consequently, there is a serious problem in assessing the change in sector-wise productivity due to technological change and change in input use driven by trade

liberlisation measures and its impact on output and employment. Of late, India's apprehension about the negative impact of various trade agreements is perhaps due to this problem. India's strategy towards various RTAs/BTAs will be clearer when their impacts can be assessed scientifically.

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## Endnote:

[i] Currently there are more than 210 such agreements notified to the WTO, while there are 149 member countries.

[ii] The debate on regionalism and multilateralism is yet to provide a conclusive answer (Nataraj, 2007). However, the trade literature notes evidences of trade diversion in blocs like EU (Ghoneiml, 2003); NAFTA (Fukao et al, 2002) and MERCOSUR (Bohara et al, 2001).

[iii] For example, NAFTA's ROO divert trade from lower- to higher-cost sources for several sectors. Most varieties of clothing produced in Mexico gain tariff-free access to the US and Canadian markets, only if inputs are sourced virtually 100 percent in North America. NAFTA's 62.5 percent local content requirement on the automobile industry has induced Japanese automobile manufacturers with plants in Canada to produce components in the United States, rather than import cheaper ones from Japan (World Bank, 2000).

[iv] Trade Complementarity Index is calculated by the following formula: $TC_{kj} = 100 - \sum\left(\frac{|m_{ik} - x_{ij}|}{2}\right)$ where $x_{ij}$ is the share of good i in global exports of country j and $m_{ik}$ is the share of good i in all imports of country k. The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

[v] For an industry *i* with exports $X_i$ and imports $M_i$ the Grubel-Lloyd IIT index is: $I = \frac{[(X_i + M_i) - |X_i - M_i|]}{(X_i + M_i)} * 100$. Higher value of the index indicates higher IIT.