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Bilateral and Regional Trade Agreements: Case Study of India

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OUTLINE

- INTRODUCTION
- INDIA's TRADE- GLOBAL CONTEXT
- INDIA AND RTAs
- ISSUES OF NEGOTIATIONS
- SELECT INDIA's RTA: A CASE

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I. INTRODUCTION

BASIC GATT/WTO PRINCIPLES

- MFN (Most Favored Nation Treatment)
- TRADE TO BE REGULATED BY CUSTOMS DUTY ONLY
- DUTIES TO BE BOUND

GATT/WTO: Based on MFN Principle

- Not against RTAs, if it leads to more trade.
- Main Objective : Liberalization
- RTAs should be informed to WTO/GATT

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Regional Trading Arrangements
Present State of the Position

- RTAs are viewed by most countries as building blocks towards eventual global free trade.
- More than 260 RTAs have been notified to GATT/WTO, (till Feb. 2005).
- 170 of these are in force, 20 after rectification, 70-under negotiation.

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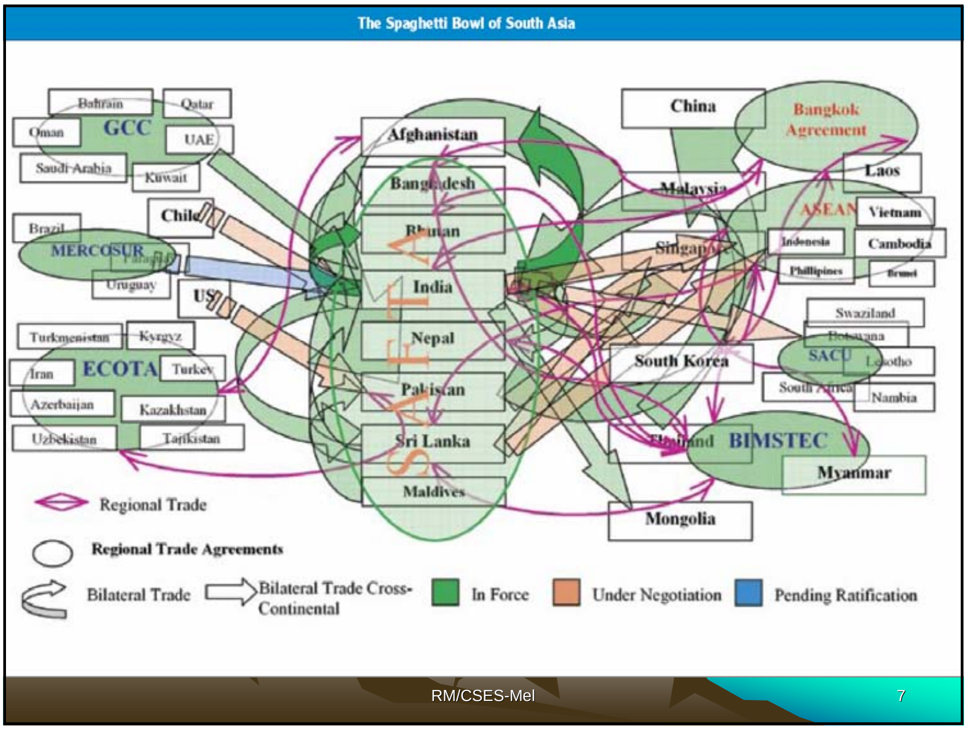
The Spaghetti Bowl of South Asia
Bahrain
Qatar
Oman
GCC
UAE
Saudi Arabia
Kuwait
Chile
Brazil
MERCOSUR
Uruguay
US
Turkmenistan
Kyrgyz
Iran
ECOTA
Turkey
Azerbaijan
Kazakhstan
Uzbekistan
Tajikistan
Afghanistan
Bangladesh
Bhutan
India
Nepal
Pakistan
Sri Lanka
Maldives
SAFTA
China
Bangkok Agreement
Laos
Malaysia
ASEAN
Vietnam
Indonesia
Cambodia
Phillipines
Brunei
Swaziland
South Korea
SACU
Lesotho
Nambia
BIMSTEC
Myanmar
Mongolia
Regional Trade
Regional Trade Agreements
Bilateral Trade
Bilateral Trade Cross-Continental
In Force
Under Negotiation
Pending Ratification
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II. India's Trade-Global Context
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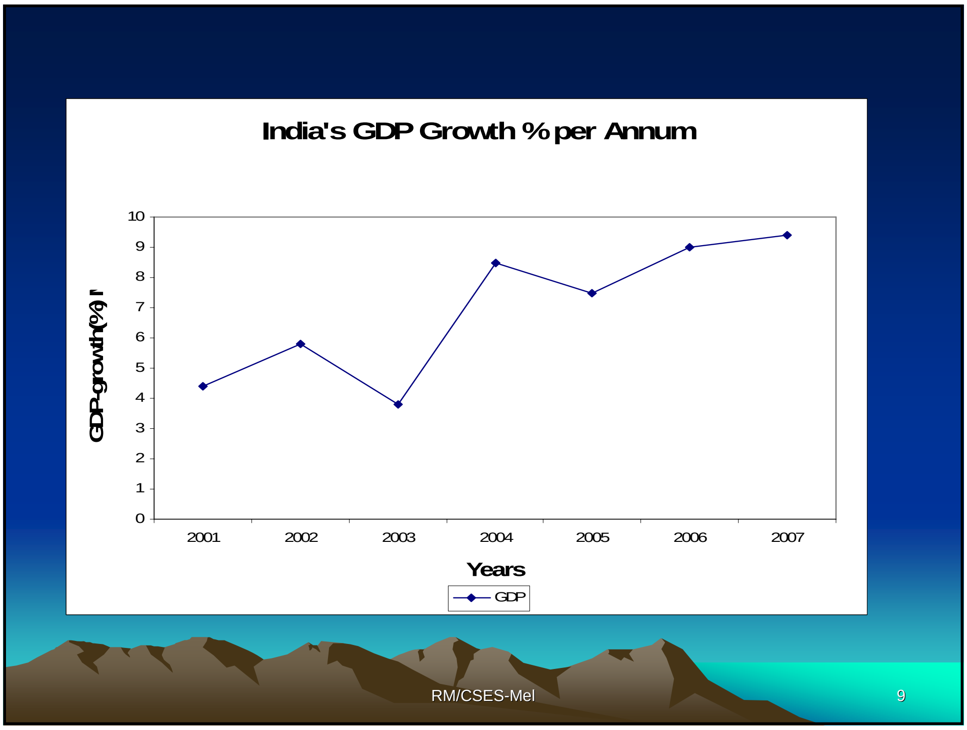

India: Country Profile

Growth Performance in India and Select Emerging Market Economies

(Annual average growth rate in percent)

Country	GDP					Agriculture		Industry		Services	
	80-90	90-2000	2001	2002	2003	1980-1990	90-2000	80-1990	1990-2000	80-90	90-00
Argentina	-0.7	4.3	-4.4	-10.9	5.5	0.7	3.4	-1.3	3.8	0.0	4.5
Brazil	2.7	2.9	1.4	1.5	1.5	2.8	3.2	2.0	2.6	3.3	3.0
China	10.1	10.3	7.5	8.0	7.5	5.9	4.1	11.1	13.7	13.5	9.0
India	**5.8**	**6.0**	**5.6**	**4.3**	**7**	**3.1**	**3.0**	**6.9**	**6.4**	**7.0**	**8**
Indonesia	6.1	4.2	3.4	3.7	3.5	3.6	2.1	7.3	5.2	6.5	4.0
Malaysia	5.3	7.0	0.3	4.1	4.2	3.4	0.3	6.8	8.6	4.9	7.2
Mexico	1.1	3.1	-0.2	0.7	1.5	0.8	1.8	1.1	3.8	1.4	2.9
Thailand	7.6	4.2	1.9	5.3	5.0	3.9	2.1	9.8	5.3	7.3	3.7

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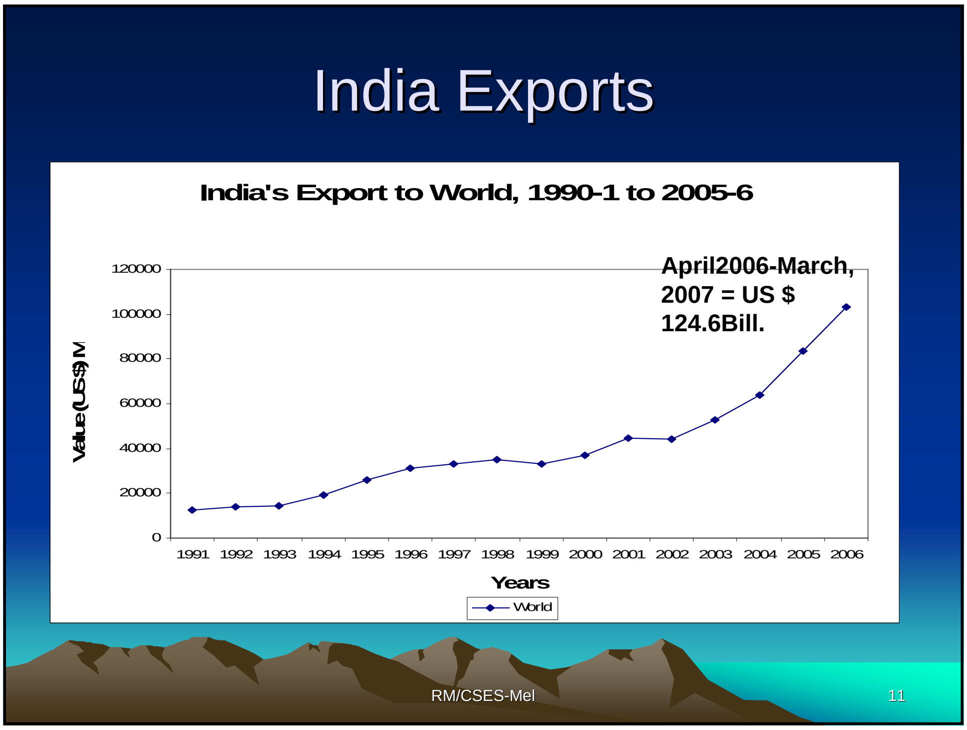
India Exports
India's Export to World, 1990-1 to 2005-6
April2006-March, 2007 = US $ 124.6Bill.
Value(US$) M
120000
100000
80000
60000
40000
20000
0
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Years
World
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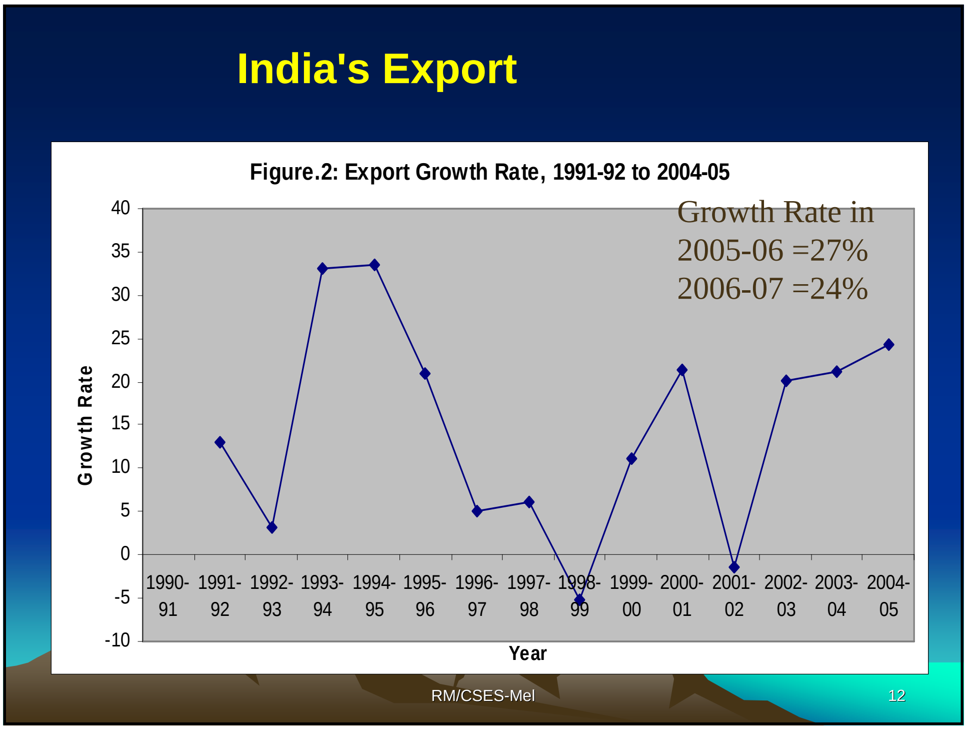
India's Export
Figure.2: Export Growth Rate, 1991-92 to 2004-05
Growth Rate in
2005-06 =27%
2006-07 =24%
Growth Rate
40
35
30
25
20
15
10
5
0
-5
-10
1990-91 1991-92 1992-93 1993-94 1994-95 1995-96 1996-97 1997-98 1998-99 1999-00 2000-01 2001-02 2002-03 2003-04 2004-05
Year
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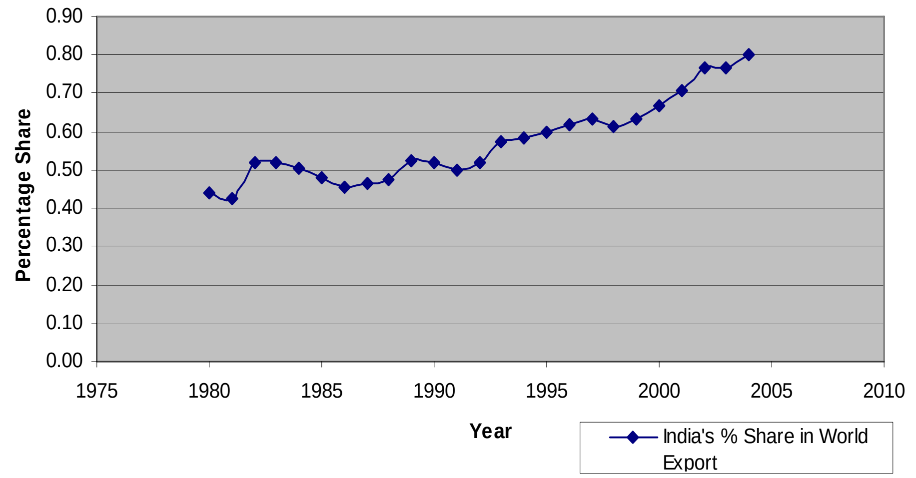
India's Export

Figure.3: India's % Share in World Export,1980-2004



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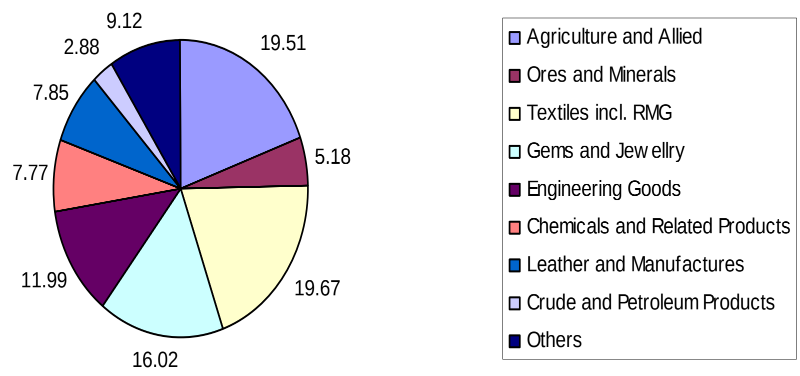
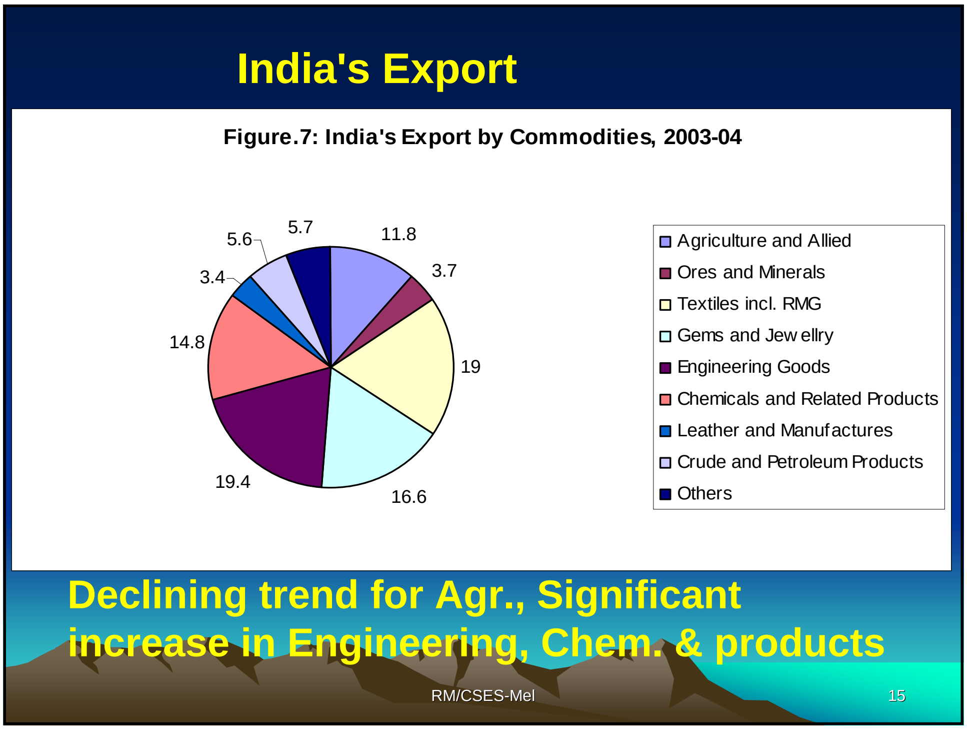
India's Export

Figure.6: India's Export by Commodities, 1990-91




India's Export
Figure.7: India's Export by Commodities, 2003-04
11.8
3.7
19
16.6
19.4
14.8
3.4
5.6
5.7
Agriculture and Allied
Ores and Minerals
Textiles incl. RMG
Gems and Jewellry
Engineering Goods
Chemicals and Related Products
Leather and Manufactures
Crude and Petroleum Products
Others
Declining trend for Agr., Significant increase in Engineering, Chem. & products
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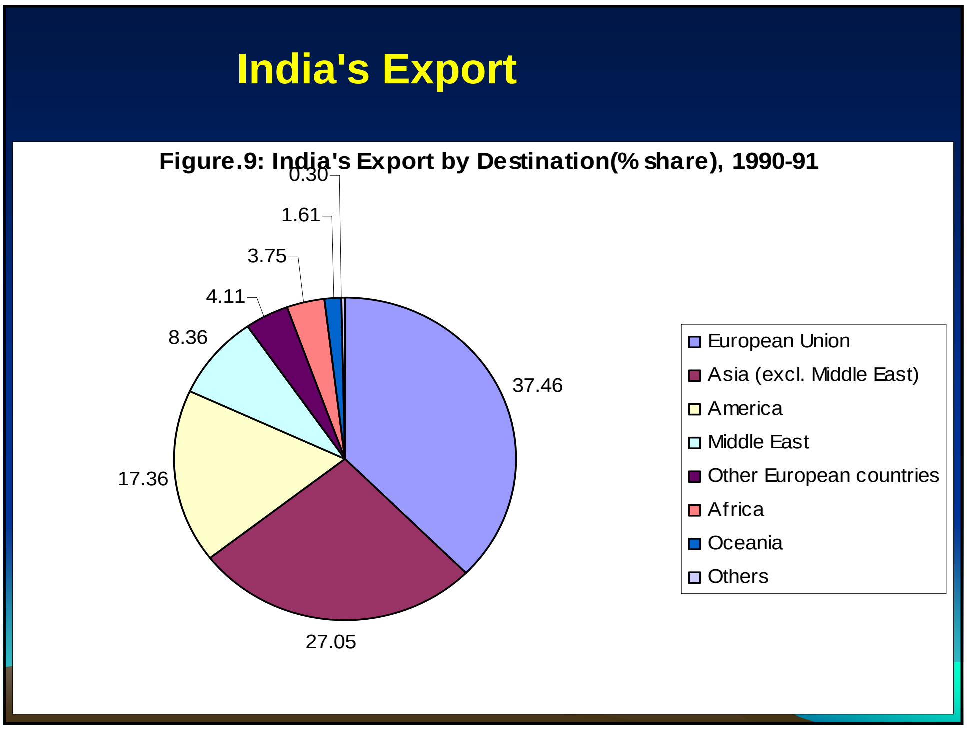
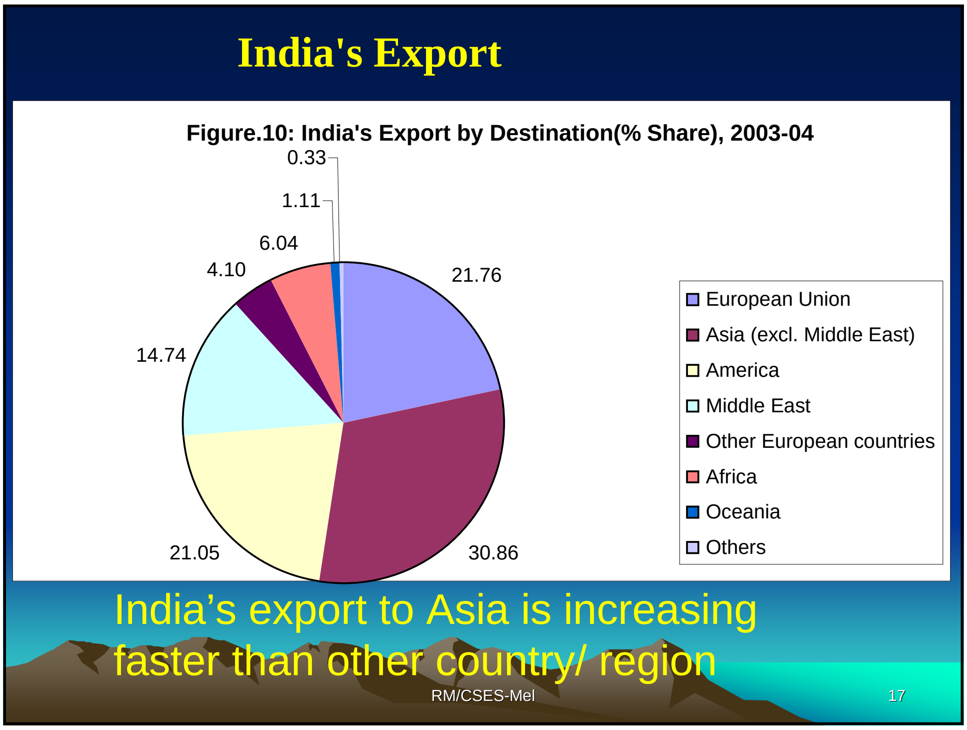

India's Export
Figure.9: India's Export by Destination(% share), 1990-91
0.30
1.61
3.75
4.11
8.36
37.46
17.36
27.05
European Union
Asia (excl. Middle East)
America
Middle East
Other European countries
Africa
Oceania
Others


India's Export
Figure.10: India's Export by Destination(% Share), 2003-04
0.33
1.11
6.04
4.10
21.76
14.74
21.05
30.86
European Union
Asia (excl. Middle East)
America
Middle East
Other European countries
Africa
Oceania
Others
India’s export to Asia is increasing faster than other country/ region
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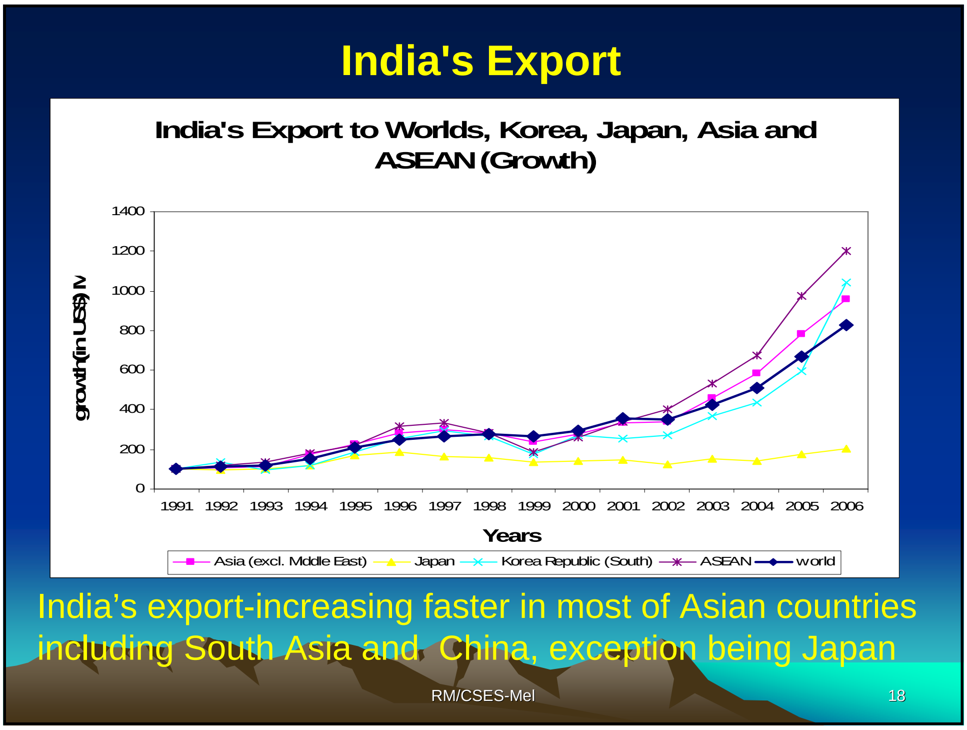
India's Export
India's Export to Worlds, Korea, Japan, Asia and ASEAN (Growth)
1400
1200
1000
800
600
400
200
0
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Years
Asia (excl. Middle East)
Japan
Korea Republic (South)
ASEAN
world
India’s export-increasing faster in most of Asian countries including South Asia and China, exception being Japan
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III. INDIA AND RTAs

- RTAs: Part of India's Trade Policy
- India: Late Entry, Cautious and guarded approach
- Selection of Partners: Political, Economic, Strategic, etc.
- Scope: PTA, FTA, CEC, etc.
- Coverage: Goods or Comprehensive
- Bilateral or Regional

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Existing RTAs

SAARC : SAPTA : SAFTA
SRI LANKA
SINGAPORE
THAILAND
NEPAL
BHUTAN

TO BE INKED SOON

ASEAN
KOREA
JAPAN
BIMSTEC
MERCOSUR
etc

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In-pipeline RTAs

- GCC
- Mauritius
- China
- EU
- SACU
- Myanmar
- Chile
- Bangladesh
- IBSA
- ASEAN+3+3

+++++

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India's Tariff Preferences

SAFTA Countries: Different Lines and Schedules for LDCs

Bhutan

Nepal

Sri Lanka

Singapore

Bangkok Agreement Countries (Now China also member)

Myanmar

Thailand

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- Analytical Concepts: More rigorous application required
- Trends in RTAs: rapid, diverse and complex
- Engagements fast and multidimensional
- Welfare effects and human development implications need to be studied in greater depth

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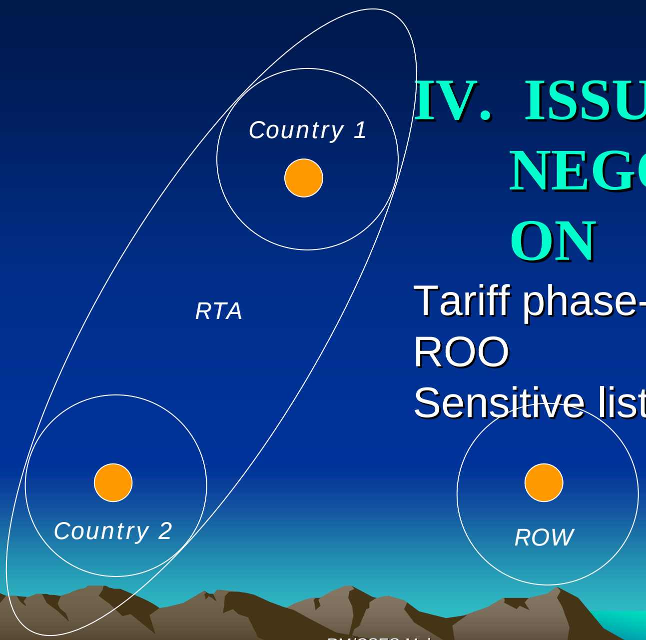
IV. ISSUES OF NEGOTIATION



Tariff phase-out
ROO
Sensitive list

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- Many times not based on Global Welfare
  - Even Member countries take their national welfare interests, and not of regional member-partners

    $\Rightarrow$ Producer welfare dominates many times more than Consumer Welfare

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HARD CORE ISSUES

⇒ **Tariff Phase-out schedule**

- Different for different countries
- Exclusion or Negative List
- Tariff-Quota

⇒ **Rules of Origin**

- Domestic (or all member countries) Value addition at X%
- Criteria of "Substantial transformation"

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SAFEGAURDS OF DOMESTIC INDUSTRIES

- Sensitive Lists
- Trade Remedial Measures like anti-dumping and countervailing measures
- Safeguard Measures
- Rules of Origin
- State Trading
- TBT and SPS

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SELECTION OF SENSITIVE LIST

- Each country - sensitivities for multiple factors
  - Revenue dependence
  - Domestic industries (strong/weak)
  - Public morals etc.
  - Protection of animal and plant life in particular and environment in general
  - Historical, artistic and archaeological importance

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V. SELECT INDIA's RTA

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SAARC Formed in '80s
Member Countries:

- Bangladesh
- Bhutan
- India
- Maldives
- Nepal
- Pakistan
- Sri Lanka

Now: Afghanistan : Dialogue Partner

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SOUTH ASIAN FREE TRADE AGREEMENT (SAPTA)

- Four Rounds of SAPTA Completed
  - SAPTA started in 1993, launched in 1995

- Adopted Positive List Approach for Tariff Reduction – Product-by-Product Approach: No serious attempt to take products which were intensely traded.

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After SAPTA: Trade Overtime

- Intra-Regional Trade increasing overtime
- Present Level of Inter-SAARC (official + unofficial) Trade: 7 Bill

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Intra-SAARC Trade (As % of Total Import of SAARC Countries)

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SAFTA Framework Ratified and formally launched on July 1, 2006

Main Features:

SAFTA may, inter-alia, consist of arrangements relating to:

a. tariffs;

b. para-tariffs;

c. non-tariff measures; and

d. Direct trade measures.

Tariff Reduction Schedule

- Member countries to cut the customs tariffs to levels between zero and five percent over the next seven to twelve year.
- 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 (LDCs) are required to cut these tariffs by 2016 years in a phased manner.

NEGATIVE LIST: SAFTA: Number of Tariff Lines* where no Tariff Concession will be given by Different Countries (out of 5224 lines)

Importing Country	Countries which will not get concessions	No. of Tariff Lines (6-digit HS level)
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 & 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

NEGATIVE LIST-INDIA

With respect of sensitive list, India has kept 884 tariff lines for non-LDCs and 763 for LDCs. 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 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.

R.O.O

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% for non-LDCs and 30% 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. Domestic Value Addition of 25% to 40%, 6-digit change in Tariff Heading.

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Given the political frictions, Pakistan has refused to give India the MFN (Most Favored 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.

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Pak Positive Line Approach for India

- India's challenge: Pakistan can not ban India's import of around 4500 lines – it is not in spirit of SAFTA framework. Dispute settlement mechanism not finalized.
- India raising this issue in different forums of SAARC/SAFTA.
- Pakistan says that the number of lines in negative list of India for Non-LDCs is large.
- India imposes a large number of non-tariff barriers.

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Thank You

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