Regionalism: Policy Options For India

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Abstract

With the stalemate of the Doha Round of WTO negotiations as US not conceding to provide the increased market access as claimed by the developing countries, the focus of the developing countries have shifted from pursuing global trade through multilateralism, to formation of bilateral trade agreements and regional trade blocs. The countries including India are on a Free Trade Agreement Spree with almost every feasible and economically viable country. However whether the countries could go for shallow or deeper economic integration among themselves depends on many factors like the level of institutional structure of the country, the efficiency of the administrative system and to a maximum extent on the political will of the countries. But how much the trade decisions are pro growth and development based on livelihood and food security concern or are politically motivated is a matter of debate. The success of these agreements also hinges upon the preparedness of the economy in the areas of Rules of Origin, sensitive lists of the countries, issues on agricultural. Again whether South-South economic cooperation or North-South economic cooperation will lead to greater economic cooperation though is a issue to be pondered but what seems reasonable from economic perspective that the North–South trade is to flourish more as the Southern countries are expected to gain more as the agreements are expected to eventually lead to greater flow of foreign direct investment and build their capacities which factors the growth and development of a country and are not expected to be the same in South- South trade . However it has its own consequences that the southern countries may be side lined in many issues and have to go for commitments, which at times are beyond their capacities. But overall what seems rational that the countries need to go for these agreements to enhancer trade till mulitaralism gains pace once again.

I. Introduction

India is picking up steam on its proposed bilateral agreements with Association of South East Asian Nations (ASEAN) and South Korea. Other trade treaties in the pipeline include a comprehensive agreement on goods, investment and services with the European Union and a bilateral agreement with Japan. The proposed treaties, when seen in the backdrop of the failure of the Doha round of World Trade Organisation (WTO) talks, could now move faster.

India, European Union (EU) and Brazil have observed that the United State's (US) refusal to take on commitments for reducing farm subsidies was primarily responsible for the collapse of the Doha Round of trade talks at the WTO. Most other members, including the EU, had agreed to the cuts proposed by India and the other developing member-countries of the G-20 group. Encouraged by the statement made at St.Petersburg by the EU and US, at the G-8 Summit, to bring in more flexibilities in their trade talks, the WTO director-general Pascal Lamy had convened the G-6 meeting (comprising the US, the EU, Brazil, India, Japan and Australia) in Geneva on 22-23 July, 2006. After the collapse of trade talks Mr. Kamal Nath, the Indian Trade and Industry Minister, has conceded, "There is no roadmap as of now for the trade talks. The talks are suspended. The WTO talks have failed". He added that India would now focus on bilateral and regional trade pacts as "building blocks" for the multilateral trading system, i.e., *Multilateralising Regionalism.*

II. Economics of Regionalism

a. Shallow Integration PTA/FTA

It is sometimes argued that there is nothing in economic theory that says that preferential trade between countries with low existing levels of trade is beneficial. Many economists such as Krugman, Summers Frankel etc. have (erroneously) argued just the opposite to defend and promote PTAs between countries that already trade a lot with each other. They argued that if two countries trade a lot with each other, they are "natural trading partners" and trade diversion due to tariff preferences between them is not of serious concern. Bhagwati and Panagariya (1996) have offered a systematic analysis of why one cannot infer anything as regards the welfare implications of tariff preferences from the existing levels of intra-union trade, whether high or low. Their critique is generally accepted by the economists community and the blanket assertions that high initial volumes of intra-regional trade make PTAs more likely to be welfare improving are no longer common.

Thus theory and empirical literature does not provide sufficient evidence as to whether engagement into FTAs/RTAs by South with North or with South is more beneficial. What is important is that the country should be able to improve its economy with sound macroeconomic fundamentals. This should be accompanied by strong and efficient infrastructure and institutional settings and well thought out farsighted economic policy backed by appropriate and adequate research with inputs from all relevant stakeholders.

b. Deep integration FTAs/RTAs

For deep integration, FTAs/RTAs by developing countries, whether with developed or developing countries, the prerequisite is a strong and sensitive institutional structure, efficient and transparent administration and strong and sustained political will, which are nearly absent at present in majority of developing countries. Moreover, the existing macroeconomic structure and the political environment of these countries do not permit negotiations for deep integration agreements. However, what is urgently required at present for these countries is to work rigorously and efficiently to streamline existing institutional, administrative, policy framework to reap all benefits of shallow integration under the FTAs/RTAs which they have been/are negotiating.

Box: 1 Deep Integration

Deep Integration: In economic parlance it indicates acquisition of dynamic gains through expanded trade (both exports and imports) among the countries. It leads to increase in the economic performance of the countries from economies of scale and increased intra-regional investment after the full liberalisation of goods and factor flows in a single market. The notion is broad affecting much economic activity, both commodity wise and sector wise in the countries.

III. India on Regionalism

India has been one of the 23 original signatories to the Agreement establishing the GATT in 1947. Since then upto now India has been/is an ardent preacher/follower of the multilateral platform for trade liberalisation. Prompted by the global wave of preferential trading arrangements and the extremely slow pace of progress of the multilateral negotiations under the aegis of the World Trade Organisation there is hardly any country (lately India as well) in the world today which is not exploring such arrangements. There are over 200 regional trade agreements (RTAs) currently in operation–more than the number of countries – and it is estimated that 60-70 percent of global trade will take place via such pacts in the future. The recent surge in regional trading agreements confirm what Prof. Jagdish Bhagwati once remarked, “ regionalism this time is here to stay for long”. Not so long ago he cursed them as the spaghetti bowl phenomenon.

In the past, India had adopted a very cautious approach to regionalism, and was engaged in only a few bilateral/regional initiatives, mainly through Preferential Trade Agreements (PTAs). Recognizing that RTAs would continue to feature in world trade for a long time, and with the intention of expanding its export market, India began concluding in-principle agreements as a possible step towards Comprehensive Economic Cooperation Agreements (CECAs) which cover free trade in goods (zero custom duty regime within a fixed time frame on items covering substantial trade, and a relatively small negative list of sensitive items with no or limited duty concessions), services, investment and identified areas of economic cooperation. CECAs are in a way involve “deeper integration” at the regional level.

a. The Free Trade Agreement (FTA) Spree

The trade agreements are new pillars in India’s economic diplomacy. Having realized that free trade pacts are a sine qua non for the country’s economic development India has drawn an ambitious agenda for negotiating trade and economic cooperation agreements from countries in the Far East to those in Latin America and the European Union. India wants to enlarge its trade and economic engagement like never before and a new thrust has been given by the Trade and Economic Relations Committee (TERC) with Prime Minister Man Mohan Singh as its chairman, who believes that, “The new-found interest in regional arrangements is based not just on trade promotion but on exploiting the potential of efficiency-seeking restructuring of industry on a pan-regional basis".

India has signed bilateral FTAs with Sri Lanka (1999), Thailand (2004) and Singapore (2005). All these FTAs are now operational. The seven member countries of South Asian

Association for Regional Cooperation (SAARC) signed the Agreement on South Asia Free Trade Area (SAFTA) in January 2004. Negotiations on all aspects of SAFTA were concluded and the tariff liberalisation programme has been operationalised since July 1, 2006. Framework Agreement on CECA with ASEAN; Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC)**;** MERCOSURE; South African Customs Union (SACU); Gulf Cooperation Council (GCC) and Afghanistan FTA on goods, services and investment are under negotiations. Joint Study Groups have been set-up for FTA feasibility with respect to China, Japan, South Korea, Chile, Malaysia, Indonesia and other countries.

b. The Roadblocks

During the period between 1998 and 2005 and especially after 2003 India has aggressively engaged herself in talks for PTAs/FTAs with a large number of countries/regional groupings. (Appendix1). However, soon political pressure started building up against the PTA/FTA spree lead by the losers. Concerns were raised by the domestic industry against indiscriminate opening up of the Indian market to imports. Joining them the Congress President Mrs. Sonia Gandhi, voicing the concerns of the distressed domestic farm sector, had asked for careful analysis (scrutiny) of FTAs before such pacts are concluded. Sonia's intervention (Sonia Effect, as the media calls it) has in fact had caused quite a flutter, and the entire process of India's FTA or regional trading agreement (RTA) has been put on the backburner.

The relook at FTAs follows the growing realisation that benefits accruing from such agreements are skewed against India in most cases. The ASEAN FTA, for example, has a high level of asymmetry. The Malaysian Institute of Economic Research and the Indian Institute of Foreign Trade have brought out this asymmetry clearly in a joint study, using an UNCTAD methodology and historic data to project future gains for the two FTA partners, have found, "The aggregate trade potential is estimated at $12.9 billion. India's trade export potential is estimated at $2.7 billion while that of Asean-5 at $10.2 billion, which gives a ratio of almost 1:4. Indonesia and the Philippines would be the major beneficiaries. This is presumably due to their current low base of export trade with India .The trade potential estimates are based on the UNCTAD methodology that probably has an over-estimation bias. If the estimates are downward adjusted even by 50% to take care of the bias, the gains are still substantial at $6 billion. However, this does not make a difference to the asymmetry aspect as it has been captured in the form of a ratio.

Top government functionaries now feel that it's not just a matter of agriculture where livelihood and food security concerns are paramount; we can't afford to have FTAs with Gulf countries or with China. If we ink a deal with GCC, our indigenous petrochemical industries will suffer a lot. And the worse will happen if we have an RTA with China, which would out compete Indian manufactured products. Such remarks are nothing but the reflections of the old mind set of the bureaucracy, which will take some more time to wean off. However, such opinions in the higher echelons of political power play a critical role in policy formulation.

The policy prescription of the government at the moment appears to go very selectively in favour of CECA. The government has now devised a strategy to concentrate on trade agreements with those blocs, which don't have any direct competition with Indian goods. "We would like to launch the negotiation process with EU in October this year. India and EU don't have direct competition as such. EU's textile products may not affect us at all because those are really of very high value". In addition to EU, India may still be interested to sign deals with Korea and Japan. The process may, however, be slow in the backdrop of India-ASEAN FTA stalemate.

c. Domestic Preparedness

As the debate over whether FTAs are in our interest reverts to the Centre-stage, the question to be asked is, whether the pace at which we are proceeding is matched by internal preparedness. Is there a rational assessment based on sound research? Are the tough lessons learnt in the past being factored in? At stake are not only the pacts with Asean, but also those on the anvil with Japan, China and South Korea.

Our experience with the Sri Lanka and Thailand FTAs suggests inadequate preparedness, as in defining rules-of-origin (ROO) and assessing the effective rate of protection for various sectors. As a result we have had to considerably moderate the value-addition requirement for ASEAN in spite of problems due to similar low specifications in previous FTAs. This meant risk of goods from third countries getting duty-free access with minimal processing in the partner country. Post-FTA, India's imports from Thailand and Sri Lanka have gone up far more than exports to them. There are cases of other Asian countries routing products through the two destinations. The ROO criterion varies across countries, and monitoring and compliance costs are very high. While product-specific rules at disaggregated levels may be better safeguards, these require detailed analysis.

Negative lists are a huge point of contention at the moment. It is most likely the 1500 strong list in case of India-ASEAN FTA could only be pruned down to 900, or lesser, (very recently India under the threat has further reduced the list to560 items) based on ad hoc judgments. Prompted by the India's willingness to prune the number of items in the negative list with the ASEAN, Singapore is pressing India to cut down number of items in the negative list by at least 752 more items. Agreed, one cannot stretch the infant industry argument beyond a point. But genuine vulnerabilities have to be factored in, which have to be backed by sound empirical analysis. Of course, as India has committed to further lower customs tariffs, her industry must be prepared for competition. Here, the import tariffs should be more in line with Asean's; else costlier import of inputs could be a disadvantage. For sectors such as edible oil, spices, tea, we need to negotiate hard on longer time frames for duty cuts and adequate safeguards. Though it is true that regional and bilateral pacts are the reality today, multilateral trade agreements are the truly optimal ones. Meanwhile, to maximize our gains, a detailed assessment-backed positioning in continuing endeavors on FTAs is of essence.

Thus, there is a clear need to strike a right balance between genuinely-needed protection and opening up, our negotiations need be backed by a high level of domestic preparedness. The domestic preparedness implies negotiation skills of trade officials supported by sound, convincing, effective logic and reasoning with relevant and adequate data and research with inputs from all stakeholders. This needs to be backed up by a strong political will and an atmosphere created for accepting the likely change/impact through public meetings, mass media and political consensus. The attendant economic policy and institutional reforms appear to be sine qua non for bilateral/regional FTAs.

Box: 2	India & Major Trade Agreements

1. Framework Agreement on Comprehensive Economic Co-operation between the ASEAN and India: The FTA was signed in 2003. ASEAN's trade to India is at a very low level, accounting for only 0.9 per cent of its global trade in 2002, while India's trade to ASEAN countries still hovers around 7 per cent of its global trade. However the preferential tariffs enjoyed by Asean members among themselves have made India's exports to this region uncompetitive. Asean is unwilling to accept India's fresh negative list in which India offered to reduce the list from 991 to 854 items. Asean proposing a negative list of 60 items something that is untenable to India, given the political sensitivities. ASEAN also rejected India's proposal to use tariff rate quotas (TRQs) for import of products like palm oil, pepper, tea and coffee.

2. India–Srilanka Comprehensive Economic Partnership Agreement: The India–Sri Lanka FTA was signed on May 2000. The FTA led increase in bilateral trade between the two countries to touch two billion dollars in 2005. Imports to India of vanaspati, Pepper from Sri Lanka which were allowed duty free access is however presently being restricted and India wants lower it to 100,000 metric tonnes from 250,000 metric tonnes a year. The export of pepper from Sri Lanka has also been restricted to 2000 metric tonnes a year from 7300 metric tonne. Other issues impacting the agreement included tough RO requirements by India for some 560 Sri Lankan products that set high local value addition levels that Sri Lankan manufacturers find hard to meet. Sri Lanka has also asked for duty free access for several pre-identified tariff lines for apparel, and deeper tariff cuts on textiles. Current tariff preference for textiles is 25 per cent; Sri Lanka wants this to be deepened to 50 per cent.

3. Framework Agreement for establishing Free Trade between India and Thailand: India-Thailand trade agreement was signed in March 2003 but the FTA is yet to be operational. Indian consumers hoped for cheaper colour television sets, auto parts and other electric goods while Thai consumers would have benefited from cheaper Indian agro products. Thailand does not figure among the Top 20 trading partners of India. It accounts for only 1.4 per cent of India's total merchandise exports and for 0.7 per cent of India's total merchandise imports. The negotiating parties of the two governments are, however, yet to arrive at an agreement on RO, the number of items in the "sensitive list", which would be outside the scope of the FTA. India wants about 1000 items, most crucially textiles and auto components, outside the FTA purview while Thailand has put its foot down to at most 300-400 items, mostly agro products.

4. India Singapore CECA: The Comprehensive Economic Cooperation Agreement (CECA) with Singapore effective from August 1, 2005 is the first with any country of India. The agreement covers a wide gamut of areas like trade, services, investment and aims at enhancing bilateral, regional and multilateral ties. In the CECA, one of the key issues is the RO. It took much time and negotiations before India and Singapore arrived at a common position on RO in the agreement. Mostly there is India's dilemma that on one hand, it wants to liberalise and become a part of the process of globalisation and, on the other, it fears that opening up its sectors would flood its market with cheap imports and prove disadvantageous to Indian manufacturers.

IV. Agricultural Exports

FTAs should provide meaningful access for key agricultural exports from developing countries, shield poor producers from disruptive surges in imports and reflect food security concerns unambiguously. FTAs can provide more country- and producer-specific cooperation to prevent poor producers from being excluded from the market of the partner country.

FTAs may provide a better opportunity for dealing with issues whose technical complexity impedes action at the multilateral level, such as sanitary and phyto sanitary measures (SPS) and free access for agricultural products of special export interest. Developed countries can provide technical and financial assistance, special facilities for testing and quality control, and more transparent and inexpensive procedures. SPS provisions are found in almost all agreements in Asia and elsewhere. And many FTAs include such mechanisms, going beyond the WTO SPS Agreement, designed to facilitate approval and to minimise the trade-disruptive effect for non-approval.

The main issue affecting agricultural trade, the massive subsidies applied by developed countries to their production and export, doesn't lend it to bilateral solutions. Developing countries' attempt to identify products deemed most crucial for food security and livelihood concerns and ensure that they are included on a list of exceptions (sensitive/negative list). Many FTAs include, in addition to the standard safeguards, a special agricultural safeguard clause that borrows elements of Article 5 of the WTO Agreement on Agriculture. While there is no agreement on this in the Doha Round negotiations on agriculture, it is a demand that developing countries will have recourse to the "special safeguard mechanism" and will be able to exclude a list of "special products," It would seem unlikely that developing countries would give up similar rights in bilateral FTAs

V. Rules of Origin

Rules of Origin (ROO) ensure that imports from third parties do not benefit from negotiated preferential treatment. There are three basic methods of determining ROO for goods, namely, value-added, changes in tariff classification and process definitions, and often combinations of these. Each method has an economic impact, often peculiar to specific sectors. The World Bank considers that restrictive ROO can easily wipe out any margin of preference generated by an FTA (World Bank 2005, p.68-70) In extreme cases, as in textiles and clothing, ROO can be used to create captive markets for exporters of raw and semi-finished products. There is no single rule of origin found in FTAs; rates are set at between 30 and 60 percent (of local content or value-addition requirements), depending on the products. This product-specific approach is complex, with a range of formulae and tests applying to thousands of different products in the parties' tariff schedules. Such an approach may provide opportunities to impose protection at every point.

Because LDCs generally lack manufacturing and process capacity, relaxed ROO can provide meaningful Special and Differentiated Treatment (S&DT) in their favour. They tend to respond favourably to such concessions, as indicated by the response of four Asian LDC apparel exporters to Canada after its Market Access Initiative for LDCs was launched in 2003. Within Asia, LDC members of SAFTA were permitted to enjoy a local content requirement that was 10 percentage points less than stipulated for more advanced parties (40 percent vs. 30 percent). But generally, ROO has been very contentious in FTA negotiations. The India-Thailand Framework Agreement provides interim ROO for Early Harvest list, but leaves the final ROO for future negotiation. The difference between the parties is that Thailand is insisting on an across-the-board 40 percent value-added rule, while India seeks that this be supplemented by an HS-4 digit tariff jump approach (similar to its FTA with Singapore). ROO have also frustrated the Thai FTA negotiations with Japan, where Japan is seeking more stringent criteria in the agriculture and fisheries sectors: for example, fish would have to be caught in Thai or Japanese waters, with 75 percent of crew members of Thai nationality.

Regardless of the stringency of the ROO, an additional barrier to trade is presented simply by the use of different ROO in different FTAs. The levels of local content and the use of tariff jump criteria vary considerably. Thus, the customs administration can be obliged to apply many different ROO to assess whether the same product qualifies for preferential treatment, depending on its source.

The variety of ROO on services appears as complex as for goods. ROO for the services sector are based on the definition of service provider or natural person involved in the provision of the services. For a natural person, the definition is based on nationals or permanent residents of a country. It should be noted the India-Singapore FTA paraphrases GATS Article V but provides more stringent rules for sensitive sectors such as audio-visual, financial, education and telecommunications services, where the additional criterion of citizenship is added.

VI. South-South and North-South Agreements:

The moot question, whether a regional FTA is more beneficial and workable when formed between developing countries (i.e. south-south) or between developing and the developed countries (north-south), Though there is no conclusive evidence about it, however World Bank cautions against South-South RTAs in favour of North-South RTAs. Notable differences are emerging between North-South bilateral agreements and South-South arrangements. North-South agreements are considerably more ambitious in content and coverage than South-South arrangements and reach deep behind the border to include services, protection of investment rules, and intellectual property rights.

a) South-South Agreements

Some South-South agreements are better at focusing on merchandise trade, minimising exclusions, adopting less restrictive RO, and lowering the border costs. However, South-South Agreements have not adhered to implementation schedules and they suffer from their small market size and economic similarity and also rarely provide for the temporary movement of labour.

The shallow integration RTAs involving most of the South-South FTAs and preferential trade agreements are beset with problems relating to their implementation. One of the reasons being that parties to such agreements have not been transparent and open even among themselves. Well-designed agreements are of limited value if they are not implemented, and many RTAs have more life on paper than in reality. The glaring example is that of SAFTA, which was negotiated after labyrinthine deliberations over almost a decade, facing rough weather since the start from day one. Pakistan is violating Article 23 of SAFTA by limiting trade with India. A lot of time, effort and good faith were invested while negotiating SAFTA. All that effort has now become infractuous because Pakistan has no intentions to honour an understanding solemnly agreed to by all member countries. Pakistan has neither reciprocated the MFN status to India (a binding condition under WTO Agreement as both are its members) and is sticking to a positive list (as against a small sensitive list as agreed in the Agreement). India has been arguing that SAFTA would lag behind other regional organisations if it did not follow the process of regional cooperation and economic integration taking place in other regional groupings.

Monitoring mechanisms are often inadequate and do not receive the sustained high-level political attention necessary to drive institutional improvements in, for example, adherence to tariff reduction schedules, customs, and border crossing. The effectiveness of RTAs is severally constrained by several factors, which, inter alia include the following: conclusion of agreements without a frank discussion of different approaches to the RO (which are crucial to determine the eligibility of products and services for preferential treatment); imposition of non-trade barriers such as technical and phytosanitary standards, and restriction of ports of imports; vagueness in respect of enforcement agencies in member-countries; unduly long 'negative lists' of excluded products; and above all, failure to appreciate the need for give-and-take. In case of SAFTA, the inability to put aside political differences is another major hurdle. If they are to serve their proclaimed objectives, RTAs require a modicum of trust and goodwill between members.

An **inverted duty structure** occurs when the import duty on the raw material is higher than that of the finished product or intermediates. The Government's decisions to enter into multiple free trade agreements often result in situations of inverted duty structure for the domestic industry. The domestic industry has been highlighting that inverted duty structure is prevalent in segments such as tyres, colour televisions and consumer electronics (with especial reference to the India-Singapore FTA and India-Thailand FTA). In the case of vanaspati products from Sri Lanka under the India-Srilanka FTA, one observes a similar distortion. One of the reasons for this phenomenon is that trade negotiators are dispersed in the Commerce Ministry, and hence what is being done by those who handle non-multilateral trade accords, are not the same people who handle MFN negotiations. After some hue and cry, the government is now addressing the problem.

b) North-South Agreements

North-South agreements, in general, score better on implementation than South-South agreements. Because North-South agreements can integrate economies with distinct technological capabilities and other different factor proportions, and because they usually result in larger post-agreement markets, the potential gains are usually greater. However, tighter ROO, more restrictive exclusions for particular sectors (such as agriculture), and a preoccupation with rules not calibrated to development priorities can undercut these benefits. North-South agreements, particularly those with the United States, have been more effective in locking in new services liberalisation; they have pressed intellectual property rights beyond the World Trade Organisation (WTO) obligations; and expanded the sphere of investment protection; but they contain few provisions to liberalise the temporary movement of labour.

Many developing countries believe that having an FTA with developed countries will result in (much awaited) increased investment flow, but the empirical basis for this view is unconvincing. The World Bank points out that "countries that had concluded a Bilateral Investment Treaty (BIT) were no more likely to receive additional FDI than were countries without such a pact". (World Bank 2005, p.98 and 129). UNCTAD's World Development Report 2003 also states that an aggregate statistical analysis does not reveal a significant independent impact of BITs in determining FDI flows. However, the "fear of exclusion" works well in this area, as those outside the FTAs are concerned that FDI will be concentrated in those countries that sign FTAs with the developed countries. But Nobel Laureate Joseph Stiglitz's remarks are worth mentioning here, "that for most (developing) countries, bilateral FTAs merely represent 'false hopes and dreams' for a torrent of inward investment".

Box: 3	**North-South FTAs**
1. US-Jordan Free Trade Agreement: The United States and the Hashemite Kingdom of Jordan FTA entered into force on 2001.Since the agreement's implementation, the apparel manufacturing industry has boomed, with exports to the United States totalling $1.2 billion in 2005,or 20 times higher than 2001. However the FTA is not realising its full potential. U.S. and Jordanian trade privileges depend upon mutual enforcement of domestic labour laws and observance of labour standards described in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. In 2005 total bilateral trade increased by 17.7 percent over 2004 reaching US $ 1.9 billion. For the same period export to	

the US by Jordan increased by 15.9 percent. The ratio of export (domestic and re export) to the US to Jordan's world export increased from 3.8 percent in 2000 to 29.6 percent in 2005. Imports from the U.S. increased by 16.7 percent compared to 2004, while imports from the world increased by 28.1 percent.

2. US-Chile Free Trade Agreement: The US-Chile FTA entered into force on 1 January 2004, and is the first comprehensive FTA signed between the USA and a South American government. Till that date, tariffs on 90% of U.S. exports to Chile and 95% of Chilean exports to the United States were eliminated. In the three months following the entry into force of the US-Chile FTA, total US exports to Chile increased by 24 percent compared with the same period of 2003, growing from $617.29 million to $766.79 million. US exports of manufactured goods to Chile increased considerable. Particularly strong growth was registered in exports of construction equipment, medical equipment, and paper. Exports of U.S. agricultural goods also grew by 22.6 percent from $22.66 million to $27.77 million in the recent years. U.S. goods exports in 2004 were $3.6 billion, up 33.5 percent from the previous year. Corresponding U.S. imports from Chile were $4.7 billion, up 27.8 percent.

3. EU-Egypt Free Trade Agreement: The EU-Egypt FTA came into effect on June 2004. EU offers close to free access for industrial goods to Egypt. The EU is Egypt's largest trading partner. Total trade in 2003 amounted to more than $10 billion. Agriculture made up less than 10% of total EU imports from Egypt. This is indeed an improvement as agricultural imports have grown by 50% since 2000 while total imports grew just 20%.

4. EU South Africa Free Trade Agreement: South Africa is the EU's largest trading partner in Sub-Saharan Africa. Although South Africa is a member of the ACP Group of countries, the Trade, Development and Co-operation Agreement (TDCA) that was signed in October 1999 governs its relationship with the EU bilaterally. Agricultural products make up 11.5% of all EU imports from South Africa. While total imports have increased 26% since 2000, agricultural imports have increased by 55% over the years. EU exports to South Africa have increased as well, 40.2% for total exports and 29.5% for agricultural exports in the current years.

5. EU Caribbean Economic Partnership Agreement (EPA): The third phase of the EPA negotiation between the EU and Caribbean region has been initiated. The Economic Partnership Agreements are the trade and development agreements that the European Union is currently negotiating with the 6 African, Caribbean and Pacific (ACP) regions to create a single Caribbean market. The third phase has launched negotiations on the text of a final agreement, encompassing the continued integration of the Caribbean regional economy and access to the European goods and services market. Phase two of the EPA process in the Caribbean was focused on creating the conditions for regional integration and attracting new regional investment and trade. In phase three will also carry on the work of agreeing the terms of market access for the two regions. The EU will seek to further improve the market access already extended to ACP countries; 97% of ACP imports already enter the EU duty and tariff free.

VII. The Policy Options

- The best option for developing countries like India is to promote multilateral trade negotiations under the aegis of WTO. There cannot be a better defence than WTO for these countries.

- The present economic and political conditions of developing courtiers do not favour for any deep integration RTAs. Though the deep integration should be the ultimate goal, however, before embarking upon it the requisite domestic reforms are to be undertaken to realise full benefits.

- India, being a large multi-party democratic country, popular political support and resolution of the stakeholders' concerns are urgently required for much awaited economic reforms hindering disinvestments and foreign investment and bring in labour and legal reforms, curtailing fiscal deficits, flexible and transparent tax regime etc, for which the governments both at the Centre and the States have to engage different political parties in national consensus building on economic reforms through informal meetings, public debates, seminars street/corner meetings etc. The civil society organisations, academics and mass media should be encouraged to play greater effective positive role in this endeavour. These efforts are needed to clear the prevailing thick air of suspicion and fear and political opposition which is founded in many cases due to lack of understanding, inadequate research, opaqueness in decision making process and popular emotional sentiments exploited by vested interests.

- Developed countries on their part should help create conditions for deep integration by developing countries through a flexible attitude. They need to assist them in capacity building and technological up gradation. They should reduce farm subsidies protecting their farmers, which undermine the competitive advantage and restrict market access for developing countries.

- For making FTAs/RTAs beneficial, the contracting parties should have minimum items in their sensitive/negative lists. Developing countries should have only those commodities/services in their negative lists, which are related to the food security and livelihood concerns including national security concerns. Developed countries on their part should not have any negative list at all as they are able to display greater negotiating power and skills especially at the bilateral/regional levels.

- There is no conclusive empirical evidence as to whether formation of FTA/RTA by the developing countries with developing countries and/or with developed countries or a combination thereof is more or less beneficial to the partners. But perhaps, the World Bank has rightly opined that South–North FTAs are more beneficial to developing countries. So India should go ahead with the idea of forming an FTA with the EU. Though this requires substantial research to estimate costs and benefits, however whatever little/scanty research findings available lends support for formation of the India-EU RTA.

VIII. Conclusions

Whether regional FTAs contribute to or undermine the multilateral trading system depends on specific contents of each agreement. The original motivations of most regional integration efforts were political. These tendencies persist and are more apparent in bilateral FTAs. Regionalism is a European invention. Bhagwati has used the term "spaghetti bowl" to portray what appears to be an incoherent, often overlapping and seemingly random maze of FTAs.

The hub-and-spoke analogy is also used to describe the constellation of agreements centred around the EU and the US. Such a configuration can marginalize the "spokes", so the choice of the Asia-Pacific countries to actively promote FTAs is partly motivated by the desire to avoid becoming "just" a spoke (World Bank 2005 p.40). However, FTAs have become a tool to pursue quite coherent global political strategies by major trading countries engaged in the "great game" on the world stage. Unfettered by multilateral constraints, major powers are pursuing geopolitical objectives through bilateral and regional trade negotiations, while smaller countries struggle to ensure that their vital sectoral export interests are protected. (UNDP, 2005, P.16).

Appendix 1

India’s Current FTA/RTA Engagements

Country	Partner	Status of the Negotiation	Agreement Type
India	ASEAN	Negotiation in progress	Bilateral FTA
India	Afghanistan	2003	Bilateral RTA
India	Bangkok Agreement	1975	Regional Trade Agreement
India	Bangladesh	Negotiation in progress	Bilateral FTA
India	Bhutan	1995	Bilateral FTA
India	BIMSTEC	2004	Regional Trade Agreement
India	Chile	Negotiation in progress	Bilateral FTA
India	China	Under study	Bilateral FTA
India	Egypt	Negotiation in progress	Bilateral Trade Agreement
India	GCC	Under study	Bilateral FTA
India	GSTP	1989	Inter-Regional Trade Agreement
India	Indonesia	Under study	Bilateral FTA
India	Mauritius	Under study	Bilateral FTA
India	MERCOSUR	2005	Bilateral FTA
India	Nepal	1996	Bilateral FTA
India	SAARC (SAFTA)	2006	Regional Trade Agreement
India	SACU	Negotiation in progress	Bilateral FTA
India	Singapore	2005	Bilateral FTA
India	Sri Lanka	1998	Bilateral FTA
India	Thailand	2003	Bilateral FTA

Source:” UNDP, THE GREAT MAZE Regional and Bilateral FTAs in Asia, Trends, Characteristics, and Implications for Human Development: Policy Paper, Asia-Pacific Trade and Investment Initiative, UNDP Regional Centre in Colombo, December 2005, Table 1, Pp.21-29.

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