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# **DISCUSSION PAPERS**

**Potential of India's Bilateral  
Free Trade Arrangements:  
A Case Study of India and Thailand**

Rajesh Mehta

RIS-DP # 24/2002



**Research and Information System  
for the Non-Aligned and  
Other Developing Countries**

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TRADE ARRANGEMENTS  
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January 2002

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# POTENTIAL OF INDIA'S BILATERAL FREE TRADE ARRANGEMENTS

## A Case Study of India and Thailand\*

by  
Rajesh Mehta\*\*

### I. Thailand's Macro-Economy: A Brief Outline

1. Thailand is one of the most prosperous countries of Asia. By the early 1980s, Thailand was on the verge of rapid industrialisation. After having enjoyed a real compound growth rate of 9.6 per cent between 1986 and 1996, Thailand suffered a sharp economic decline with a combination of currency and financial crisis in 1997 which was a result of the unsuccessful defence of the currency and the weak banking system. Since the crisis broke out in mid-1997 in Thailand and spread widely across the region, the market confidence in the Thai currency Baht, and Thai economy in general, was largely damaged.
2. Thailand faced four major macroeconomic problems<sup>1</sup> in (a) Net international reserves getting depleted because of the unsuccessful defence of the Thai Baht, (b) The financial sector, (c) The real sector facing a serious liquidity shortage, and (d) Regional economic turmoil with significant constraint in the country's ability to resolve its economic difficulties.
3. During 1997-1998, Thailand introduced a series of measures with support from the IMF, the World Bank, the Asian Development Bank and other bilateral sources to overcome its currency and financial crisis.
4. When the actual magnitude of the net official reserves of Thailand was disclosed for the first time in August 1997 - showing a steep decline from over US\$ 33 billion at the end of 1996 to less than US\$ 1 billion at the end-August 1997 as a result of unsuccessful defence of the Baht - the market panicked. Immediately, the then Thai government set highest priority on regaining confidence and stabilising the currency value by successfully implementing a tight and prudent monetary policy which delivered positive outcome in terms of controlling inflation, stabilising exchange rates, and lowering interest rates.

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\* An earlier version of this study was submitted to G.O.I., Ministry of External Affairs.

\*\* Author is thankful to Ms Pooja Jain in the preparation of earlier version of this paper.

<sup>1</sup> *Thailand's Economic Reform: Progress Report*, January 1999, edited by Fiscal Policy Office, Ministry of Finance, Kingdom of Thailand.

5. The increased international confidence was reflected in the appreciation of the Baht from 53.7 Baht/US\$ in January 1998 to around 36 Baht/US\$ in December. But with a decline in real GDP the economy remained weaker than anticipated. The Thai government had adopted an expansionary fiscal policy for the year 1998-1999. The overall public sector deficit for fiscal year 1998-1999 increased to 5 per cent of GDP, compared to about 3 per cent of 1997-1998.
6. Following a decade of large trade deficits<sup>2</sup>, Thailand had shown several monthly current account surpluses, beginning with the fall of 1997. The current account balance, as the percentage of GDP, stood at 9.99 per cent in 1999. Even the stock market showed some life, as foreign investors bought up Thai equities. Net inflows of FDI to Thailand, as a percentage of its GDP, was 5 per cent in 1999. The ratio of exports (of goods and services) to GDP in 1999 was around 57 per cent, which was greater than ratio of imports (of goods and services) to GDP that was around 44 per cent. The economy as a whole has continued to recover and inflation has also remained quite low. Table 1 summarises some select macro-economic indicators of Thailand, for 1999.

<b>Table 1: Thailand: Select Macroeconomic Indicators</b>	
<b>Variable</b>	<b>1999</b>
GDP (current US\$)	124369256448.00
GDP per capita, PPP (current international \$)	6132.31
GDP, PPP (current international \$)	369445699584.00
Land area (sq km)	510890.00
Population, total	60245800.00
Agriculture, value added (% of GDP)	10.47
Industry, value added (annual % growth)	8.85
Manufacturing, value added (% of GDP)	32.37
Industry, value added (% of GDP)	40.02
Services, etc., value added (% of GDP)	49.51
Imports of goods and services (% of GDP)	44.89
Imports of goods and services (annual % growth)	20.24
Exports of goods and services (% of GDP)	57.31
Exports of goods and services (annual % growth)	8.86
Foreign direct investment, net inflows (% of GDP)	5.00
Foreign direct investment, net inflows (% of gross capital formation)	23.83
Inflation, GDP deflator (annual %)	-2.60
GDP growth (annual %)	4.16
Population growth (annual %)	0.75
Current account balance (% of GDP)	9.99
Current revenue, excluding grants (% of GDP)	15.74
GDP per capita (constant 1995 US\$)	2717.22
Official exchange rate (LCU per US\$, period average)	37.81
Source: World Bank, <i>World Development Indicators</i> , 2001.	

<sup>2</sup> Table 3 gives statistics relating to Thailand's global exports and global imports, from 1980 to 1999.

7. The Thai economy registered a modest growth in 1999 to the level of 4.2 per cent in real GDP. This constituted a major upturn from the sharp (-) 10.2 per cent fall in the economy in 1998, - the year after financial crisis struck Thailand. Before the financial crisis, the Thai economy had for years experienced manufacturing-led economic growth, averaging 9.6 per cent per annum for a decade up to 1996.
8. Thailand enjoyed some sort of an economic renaissance in the 1990s, driven by foreign investments along with infusion of fresh technology in Thai agriculture and industries. Although Japanese and Korean investments in manufacturing plants have given Thailand a comparatively modern industrial base and the country remains the major tourist destination and source of foreign capital, still there exists a vast scope of further growth and development in Thailand.

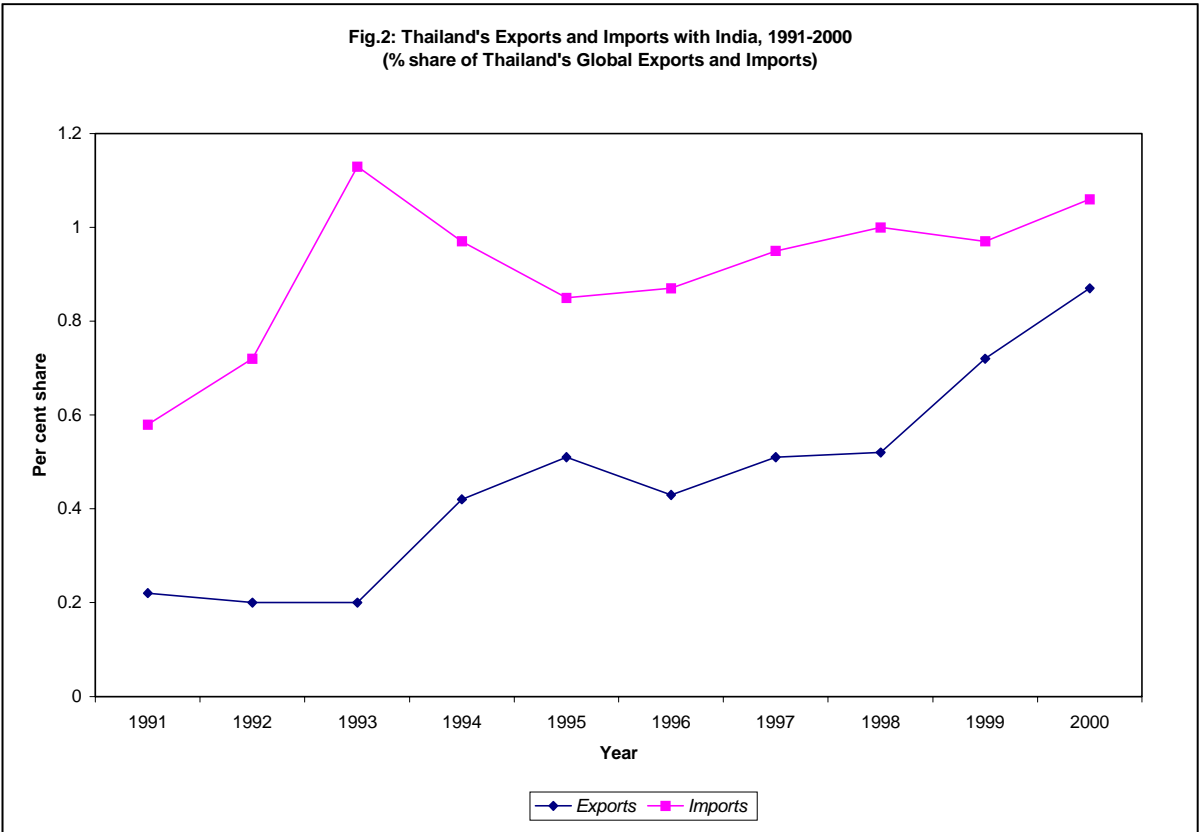
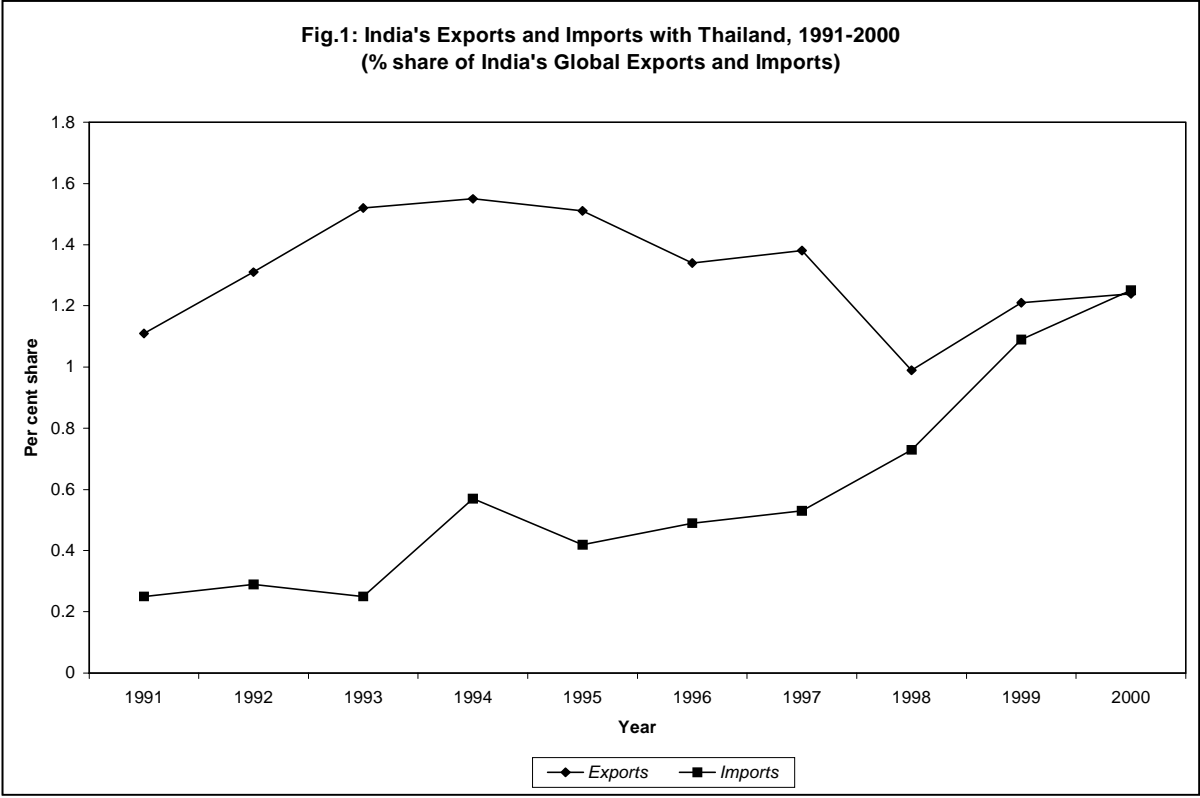
## II. Economic Synergy between India and Thailand

9. Thailand is an important trading partner of India. Thailand ranked 20th in terms of India's exports (during 2000) while its rank was 24th in terms of India's import basket. The amount of India's total exports to Thailand, in 1999, amounted to US \$547 million while the corresponding value of India's imports from Thailand was US\$ 622 million. Table 2 gives a clear picture of India's trade surplus with Thailand during 1991-1998. It was only in recent the years that Thailand has trade deficit of US\$24 million in 1999, and US\$ 75 mill. in 2000.

	1980	1985	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	(Mill. US\$)											
<b>India's Exports</b>												
to Thailand	47 (0.56)	56 (0.61)	199 (1.11)	242 (1.31)	318 (1.52)	374 (1.55)	461 (1.51)	434 (1.34)	460 (1.38)	363 (0.99)	468 (1.21)	547 (1.24)
to World (Global)	8441	9214	17873	18500	20989	24196	30537	32325	33248	36422	38577	44289
<b>India's Imports</b>												
from Thailand	24 (0.16)	64 (0.40)	49 (0.25)	67 (0.29)	54 (0.25)	146 (0.57)	146 (0.42)	176 (0.49)	208 (0.53)	309 (0.73)	492 (1.09)	622 (1.25)
from World (Global)	14822	16075	19509	23227	21269	25486	34484	36055	39080	42140	45038	49724
Note: Figures in parentheses represent percentage share of global.												
Source: IMF, <i>Direction of Trade Statistics Yearbook</i> , 1985, 1990 and 2000/2001.												

10. India's trade (around 1 per cent) with Thailand accounts for a modest proportion of India's total global trade and the same is true from Thailand's point of view as well. India's exports to Thailand (as a proportion of India's total global exports) have decreased between the period 1995-1998 but have shown increasing trend afterwards (Figure 1). But India's imports from Thailand (as a proportion of India's total imports) have consistently increased during 1990s (except during 1994). The level of India's exports to Thailand was higher than the level of India's imports from Thailand till 1998 (Table 2). It shows that India always had significant trade surplus with Thailand, but in 1999 equation was reversed.
11. In terms of Thailand's global exports (and global imports) by countries, India's share more or less has increased during the 1990s (Figure 2 and Table 3). It shows that although India is not an important market for Thailand, the latter's integration with India has been increasing overtime.
12. India has been one of the important markets for Thailand's foreign direct outflow till 1997. Thailand has made total foreign direct investment (approved) of Rs.24591.96 million in India (See Section X for details).





<b>Table 3: Thailand's Exports and Imports with India, 1980-2000</b>												
												(Mill. US\$)
	1980	1985	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Thailand's Exports</b>												
to India	27 (0.42)	70 (0.98)	63 (0.22)	65 (0.20)	74 (0.20)	193 (0.42)	290 (0.510)	242 (0.43)	294 (0.51)	284 (0.52)	447 (0.72)	566 (0.87)
to World (Global)	6501	7123	28811	32472	37158	45583	57201	55743	57560	54489	61797	65160
<b>Thailand's Imports</b>												
from India	44 (0.48)	36 (0.39)	220 (0.58)	291 (0.72)	522 (1.13)	528 (0.97)	629 (0.85)	640 (0.87)	594 (0.95)	430 (1.00)	515 (0.97)	602 (1.06)
from World (Global)	9213	9260	37925	40686	46065	54394	73692	73336	62804	43108	53207	56915
Note: Figures in parentheses represent percentage share of global.												
Source: IMF, <i>Direction of Trade Statistics Yearbook</i> , 1985, 1990 and 2000/2001.												

### III. India and Thailand Trade: Commodity Compositions

13. In 2000, Thailand exported goods worth US\$ 65160 million to the world (Table 3). The distribution of Thailand exports by commodities is not concentrated toward a few commodities/commodity groups. A list of top 20 commodities (at 4-digit HS level) of Thailand's total exports<sup>3</sup> is given in Table 4. This table shows that a major share of Thailand's total exports is concentrated in electronics, textiles, gems & jewellery and agricultural products. The important commodity groups (of industrial sector) of Thailand's exports<sup>4</sup> are 'rubber and articles thereof' (chapter 40, as defined by Harmonised System of International Trade Classification or HS chp.40), 'electric machinery and equipment and parts thereof' (chp.85), 'other footwears with outer soles' (chp.64), 'other articles of plastics' (chp.39), 'articles of jewellery and precious stones' (chp.71) and 'articles of apparel and clothing not knitted or crocheted' (chp.62). Among the agricultural sector, it has been primarily exporting 'crustaceans, whether in shell or not' (chp.3) and 'rice' commodity of HS chp.10.

HS Code	Description	Value(US\$ million)	Shares (%) in total
4001	Natural rubber, balata, gutta-perch	2458.57	6.68
8542	Electronic integrated circuits and	2333.69	6.34
306	Crustaceans, whether in shell or no	2077.49	5.65
1006	Rice	1951.54	5.3
6402	Other footwear with outer soles and	1334.33	3.63
8528	Television receivers (including	954.14	2.59
3926	Other articles of plastics and	861.41	2.34
7113	Articles of jewellery and parts the	826.15	2.25
6204	Women's or girls' suits, ensembles,	807.46	2.19
7102	Diamonds, whether or not worked,	756.45	2.06
6203	Men's or boys' suits, ensembles	732.27	1.99
6403	Footwear with outer soles of rubber	587.68	1.6
8504	Electrical transformers, static con	563.93	1.53
8534	Printed circuits.	557.14	1.51
8522	Parts and accessories of apparatus	495.76	1.35
8517	Electrical apparatus for line telep	489.71	1.33
8544	Insulated (including enamelled or a	478.48	1.3
4202	Trunks, suit-cases, vanity-cases, e	452.42	1.23
7103	Precious stones (other than diamond	421.86	1.15
8521	Video recording or reproducing appa	416	1.13
<b>Total of above</b>		<b>19556.48</b>	<b>53.15</b>

Source: CMIE, *India Trades*.

<sup>3</sup> For year 1995. We could not obtain Thailand global trade statistics, by commodities, for recent years.

<sup>4</sup> Based on bar-diagram of Figure 4.

14. Table 4A gives amount of India's imports from Thailand<sup>5</sup>, by broad commodity groups (defined by different chapters of HS classification) during 1999-2000<sup>6</sup>. India has imported commodities of 82 groups (out of 99 commodity groups defined by different chapters of HS classification) from Thailand, during this year. It also shows that commodities of four groups, i.e. 'sugars and sugar confectionery' (HS chp.17), 'plastics & plastics products (chp.39) and 'electric and non-electric machinery etc.' (chp. 84 and 85) constitute a major share of India's imports from Thailand. During 1999-2000, these commodity groups constituted 13-14 per cent each of India's imports from Thailand. The other important commodity groups of India's imports from Thailand, during 1999-2000, were 'textile articles etc.' (chp.59) and 'Natural and cultured pearls and precious metals' (chp.71).

<b>HS CHP.</b>	<b>Description</b>	<b>Value (Rs Lakhs)</b>	<b>% share of total</b>
3	Fish and crustaceans, molluscs and other aquatic	1.99	0.0014
4	Dairy produce, birds' eggs; natural honey; edible	54.47	0.0386
5	Products of animal origin, not elsewhere specified	338.01	0.2393
6	Live trees, and other plants; bulbs, roots and the like;	13.13	0.0093
7	Edible vegetables and certain roots and tubers.	327.27	0.2317
8	Edible fruit and nuts; peel or citrus fruit or melons.	408.89	0.2895
9	Coffee, tea, mate and spices.	16.68	0.0118
11	Products of the milling industry; malt; starches;	21.67	0.0153
12	Oil seeds and oleaginous fruits; miscellaneous grains,	118.63	0.0840
13	Lac; gums, resins and other vegetable saps and	442.6	0.3134
14	Vegetable plaiting materials; vegetable products not	100.23	0.0710
15	Animal or vegetable fats and oils and their cleavage	498.27	0.3528
17	Sugars and sugar confectionery.	20258.68	14.3445
18	Cocoa and cocoa preparations.	257.32	0.1822
19	Preparations of cereals, flour, starch or milk;	36.11	0.0256
20	Preparations of vegetables, fruit, nuts or other parts of	76.9	0.0545
21	Miscellaneous edible preparations.	186.27	0.1319
22	Beverages, spiris and vinegar.	10.18	0.0072
23	residues and waste from the food industries; prepared	644.44	0.4563
25	salt; sulphur; earths and stone; plastering materials,	61.54	0.0436
26	Ores, slag and ash.	99.27	0.0703
27	Mineral fuels, mineral oils and products or their	3550.76	2.5142
28	Inorganic chemicals; organic or inorganic compounds of	1172.45	0.8302
29	Organic Chemicals	3605.06	2.5526
30	Pharmaceutical products.	9.59	0.0068
32	Tanning or dyeing extracts; tannins and their	533.97	0.3781
33	Essential oils and resinoids; perfumery, cosmetic or	161.16	0.1141
34	Soap, organic surface-active agents, washing	962.19	0.6813

<sup>5</sup> In other words, Thailand's export to India.

<sup>6</sup> See Annexure 1 for definition of different commodity groups as defined by different chapters of Harmonised System of International trade classification.

35	Albuminoidal substances; modified starches; glues;	139.75	0.0990
37	Photographic or cinematographic goods.	16.92	0.0120
38	Miscellaneous chemical products.	902.54	0.6391
39	Plastics and articles thereof.	19137.87	13.5509
40	Rubber and articles thereof.	4382.01	3.1028
41	Raw hides and skins (other than furskins) and leather.	74.26	0.0526
42	Articles of leather, saddlery and harness; travel goods,	10.44	0.0074
43	Furskins an artificial fur; manufactures thereof.	3.08	0.0022
44	Wood and articles of wood; wood charcoal.	1558.6	1.1036
46	Manufacturers of straw; of esparto or of other plaiting	0.37	0.0003
47	Pulp of wood or of other fibrous cellulosic material;	350.11	0.2479
48	Paper and paperboard; articles of paper pulp, of paper	1585.89	1.1229
49	Printed books, newspapers, pictures and other products	316.26	0.2239
51	Wool, fine or coarse animal hair; horsehair yarn and	62.59	0.0443
52	Cotton	516.25	0.3655
54	Man-made filaments	5799.71	4.1066
55	Man-made staple fibres.	2721.26	1.9268
56	Wadding, felt and nonwovens; special yarns; twine,	961.37	0.6807
57	Carpets and other textile floor coverings.	5.85	0.0041
58	Special woven fabrics; tufted textile fabrics; lace;	393.49	0.2786
59	Impregnated, coated, covered or laminated textile	6921.08	4.9006
60	Knitted or crocheted fabrics.	116.99	0.0828
61	Articles of apparel and clothing accessories, knitted or	363.13	0.2571
62	Articles of apparel and clothing accessories, not knitted	1547.03	1.0954
63	Other made up textie articles; sets; worn clothing and	195.15	0.1382
64	Footwear, gaiters and the like; parts of such articles.	299.77	0.2123
65	Headgear and parts thereof.	16.78	0.0119
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks,	153.09	0.1084
67	Prepared feathers and down and articles made of	11.83	0.0084
68	Articles of stone, plaster, cement, asbestos, mica or	188.59	0.1335
69	Ceramic products.	25.82	0.0183
70	Glass and glassware.	428.46	0.3034
71	Natural or cultured pearls, precious or semi-precious	7099.8	5.0271
72	Iron and steel.	3787.85	2.6821
73	Articles of iron or steel	295.87	0.2095
74	Copper and articles thereof	848.26	0.6006
76	Aluminium and articles thereof	372.39	0.2637
78	Lead and articles thereof.	0.78	0.0006
79	Zinc and articles thereof.	559.52	0.3962
82	Tools, implements, cutlery, spoons and forks, of base	939.9	0.6655
83	Miscellaneous articles of base metal.	12.82	0.0091
84	Nuclear reactors, boilers, machinery and mechanical	20414.92	14.4552
85	Electrical machinery and equipment and parts thereof;	18792.43	13.3063
87	Vehicles other than railway or tramway rolling stock,	2684.94	1.9011
88	Aircraft, spacecraft, and parts thereof.	7.49	0.0053
90	Optical, photographic, cinematographic, measuring,	877.49	0.6213
91	clocks and watches and parts thereof.	100.22	0.0710
92	Musical instruments; parts and accessories of such	389.55	0.2758
94	Furniture; bedding, mattresses, mattress supports,	118.16	0.0837
95	Toys, games and sports requisites; parts and	78.29	0.0554
96	Miscellaneous manufactured articles.	220.5	0.1561
97	Works of art, collectors' pieces and antiques.	3.07	0.0022
98	Project Goods; some special uses.	31.87	0.0226
99	Miscellaneous goods.	419.02	0.2967
	<b>Total</b>	<b>141229.21</b>	<b>100.00</b>

Source: G.O.I., DGCIS, *Monthly Statistics of Foreign Trade of India, Imports*, March 2000.

15. Table 4B summarises the amount (and per cent share) of India's top 20 commodities (at 6-digit HS level) imported from Thailand during 1999-2000. It shows that India's imports are not concentrated in select commodities. The share of top most commodity, i.e. 'other cane and beet sugar and chemically pure sucrose in solid form - not containing added flavouring or colouring matter', is less than 10 per cent. It can be clearly noticed from Table 4B that different types of sugar confectionery, 'parts of nuclear appliances', 'polypropylene' 'tyre cord fabric of nylon/other polyamides' and 'un-worked diamonds' are the major commodities of India's imports from Thailand.

<b>Tab 4B: India's Imports from Thailand during , 1999-2000: Top Twenty Commodities</b>			
<b>HS Code (6-digit HS Level)</b>	<b>Description</b>	<b>Value (Rs Lakh)</b>	<b>% share of India's Import from Thailand</b>
170199	Other, cane or beet sugar and chemically pure sucrose, in sold form	13800.50	9.7717
847330	Parts and accessories of the machines of heading No. 84.71.	9882.66	6.9976
390210	Polypropylene	9457.83	6.6968
590210	Tyre Cord Fabric of Nylon/other Polyamides	6557.53	4.6432
170111	Cane sugar	6275.18	4.4433
710310	Precious stores(other than diamonds) and semi precious stones unworked or simply sawn or roughly sh	5388.28	3.8153
271000	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsew	3217.53	2.2782
540242	Yarn of Polyester,Prtly Orntd,Untwstd or with a Twist <= 50 Turns Per Mtr, Single	3165.05	2.2411
854011	Cathode-ray TV picture tubes, incl. video monitor-cathode-ray tubes-colour	2286.46	1.6190
851829	Other loud speakers, whether or not mounted in their enclosures	2270.00	1.6073
852990	Othe parts of hdg 8525 to 8528	2002.92	1.4182
550320	Staple Fibres of Polyester not Crd/Cmbd	1720.17	1.2180
294190	Other derivatives; salts thereof	1696.84	1.2015
847170	Storage units	1594.90	1.1293
721933	Cold rolled products of stainless steel of a width of 600 mm or more of a thickness exceeding 1mm b	1528.53	1.0823
870899	Other parts & accessories of vehicles of heading 8701-8705	1516.58	1.0738
853080	Other signaling/traffic control equipment	1498.65	1.0611
854219	Other incl. Circuits obtained by a combination of bipolar & MOS technologis (BIMOS technology)	1298.76	0.9196
390120	Polyethylene Hvng a Spcfc Grvty 0.94 /More	1250.54	0.8855
847160	Input or output units, whether or not containing storage units in the same housing	1179.57	0.8352
	<b>Total</b>	<b>77588.48</b>	<b>54.94</b>

Source: G.O.I., DGCIS, *Monthly Statistics of Foreign Trade of India, Imports*, March 2000.

16. In 2000, the amount of Thailand's total imports was US\$ 56915 million. Apart from 'petroleum oils' (chp.27), it has been importing a large number of manufactured goods.<sup>7</sup> Some of the important commodity groups of Thailand's total imports are 'electric machinery and equipment and parts thereof' (HS chp.85) and 'vehicles other than railway and tramway rolling stock, and parts thereof' (chp.87), 'flat rolled products of iron or non' (chp.72), 'organic chemicals' (chp.29) and 'plastics and articles thereof (chp.39). A list of top 20 commodities (at 4-digit HS level) of Thailand's total imports is given in Table 5. The table clearly shows that Thailand's import is concentrated in a few specific commodities of petroleum oil, iron and steel and machinery and transport equipment.

**Table 5: Thailand's Global Imports: Top Twenty Commodities**  
(4-digit HS level during 1995)

HS Code	Description	Value (US\$ million)	Shares (%) in total
8542	Electronic integrated circuits and	3750.98	8.41
2709	Petroleum oils and oils obtained fr	2851.53	6.4
8708	Parts and accessories of the motor	1692.67	3.8
2710	Petroleum oils and oils obtained fr	1689.09	3.79
8703	Motor cars and other motor vehicles	1551.31	3.48
8706	Chassis fitted with engines, for th	1318.04	2.96
7209	Flat-rolled products of iron or non	1037.54	2.33
7208	Flat-rolled products of iron or non	978.79	2.2
7207	Semi-finished products or iron or n	907.27	2.03
7102	Diamonds, whether or not worked, bu	898.04	2.01
8536	Electrical apparatus for switching	763.87	1.71
8540	Thermionic, cold cathode or photo-c	736.15	1.65
5201	Cotton, not carded or combed.	660.97	1.48
3926	Other articles of plastics and arti	655.75	1.47
7326	Other articles of iron or steel.	612.83	1.37
2917	Polycarboxylic acids, their anhydri	528.81	1.19
8504	Electrical transformers, static con	517.76	1.16
7601	Unwrought aluminium.	511.33	1.15
8523	Prepared unrecorded media for sound	510.81	1.15
8541	Diodes, transistors and similar sem	506.5	1.14
	<b>Total of above</b>	<b>22680.04</b>	<b>50.88</b>

Source: CMIE, *India Trade*.

17. Table 5A gives a distribution of amount of India's exports to Thailand by broad commodity groups (defined by HS 2-digit level or HS Chapters), during 1999-2000. This table shows that India has exported commodities of 85 groups out of total 99 commodity groups. However, the amount of India's exports to Thailand has been concentrated in a commodity group 'precious metals and stones etc.'(HS chp.71),

constituting around 38.2 per cent of India's exports to Thailand. In India's export basket to Thailand, 'organic chemicals' (chp.29), and 'residues and waste from the food industries - prepared animal fodder' (chp.23) constitute other important commodity groups.

<b>HS hp.</b>	<b>Description</b>	<b>Value (Rs Lakh)</b>	<b>% share of total</b>
3	Fish and crustaceans, molluscs and other aquatic	9897.6	5.0830
4	Dairy produce, birds' eggs; natural honey; edible products	92.87	0.0477
5	Products of animal origin, not elsewhere specified or	30.88	0.0159
6	Live trees, and other plants; bulbs, roots and the like	5.69	0.0029
7	Edible vegetables and certain roots and tubers.	78.53	0.0403
8	Edible fruit and nuts; peel or citrus fruit or melons.	52.03	0.0267
9	Coffee, tea, mate and spices.	119.31	0.0613
11	Products of the milling industry; malt; starches; inulin; wheat	99.35	0.0510
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds	1183.41	0.6078
13	Lac; gums, resins and other vegetable saps and extracts.	534.05	0.2743
14	Vegetable plaiting materials; vegetable products not	13.28	0.0068
15	Animal or vegetable fats and oils and their cleavage	6293.58	3.2322
16	Preparations of meat, of fish or of crustaceans, molluscs or	15.71	0.0081
17	Sugars and sugar confectionery.	57.28	0.0294
19	Preparations of cereals, flour, starch or milk; pastrycooks'	19.59	0.0101
20	Preparations of vegetables, fruit, nuts or other parts	15.06	0.0077
21	Miscellaneous edible preparations.	229	0.1176
22	Beverages, spirits and vinegar.	124.08	0.0637
23	Residues and waste from the food industries; prepared	12567.75	6.4543
24	Tobacco and manufactured tobacco substitutes.	83.25	0.0428
25	Salt; sulphur; earths and stone; plastering materials, lime	892.04	0.4581
26	Ores, slag and ash.	26.4	0.0136
27	Mineral fuels, mineral oils and products or their distillation;	3563.97	1.8303
28	Inorganic chemicals; organic or inorganic compounds of	1090.32	0.5599
29	Organic Chemicals	16123.54	8.2805
30	Pharmaceutical products.	5623.37	2.8880
31	Fertilisers	16.45	0.0084
32	Tanning or dyeing extracts; tannins and their derivatives;	3500.53	1.7977
33	Essential oils and resinoids; perfumery, cosmetic or toilet	110.85	0.0569
34	Soap, organic surface-active agents, washing preparations,	90.83	0.0466
35	Albuminoidal substances; modified starches; glues;	243.19	0.1249
36	Explosives; pyrotechnic products; matches; pyrophoric	127.06	0.0653
37	Photographic or cinematographic goods.	50.47	0.0259
38	Miscellaneous chemical products.	7888.6	4.0513
39	Plastics and articles thereof.	834.82	0.4287
40	Rubber and articles thereof.	348.26	0.1789
41	Raw hides and skins (other than furskins) and leather.	532.13	0.2733
42	Articles of leather, saddlery and harness; travel goods,	72.91	0.0374
43	Furskins an artificial fur; manufactures thereof.	0.56	0.0003

*contd....*

<sup>7</sup> See Figure V, for details, for per cent share of different commodity groups in Thailand's total imports.



44	Wood and articles of wood; wood charcoal.	22.85	0.0117
45	Cork and articles of cork.	20.41	0.0105
48	Paper and paperboard; articles of paper pulp, of paper or of	179.25	0.0921
49	Printed books, newspapers, pictures and other products	85.47	0.0439
50	Silk	2795.92	1.4359
51	Wool, fine or coarse animal hair; horsehair yarn and woven	122.78	0.0631
52	Cotton	11087.85	5.6943
53	Other vegetable textile fibres; paper yarn and woven fabrics	258.95	0.1330
54	Man-made filaments	562.45	0.2889
55	Man-made staple fibres.	905.07	0.4648
56	Wadding, felt and nonwovens; special yarns; twine, cordage,	38.7	0.0199
57	Carpets and other textile floor coverings.	554.62	0.2848
58	Special woven fabrics; tufted textile fabrics; lace; tapestries;	142.1	0.0730
59	Impregnated, coated, covered or laminated textile fabrics;	146.63	0.0753
61	Articles of apparel and clothing accessories, knitted or	84.26	0.0433
62	Articles of apparel and clothing accessories, not knitted or	266.99	0.1371
63	Other made up textile articles; sets; worn clothing and worn	169.28	0.0869
64	Footwear, gaiters and the like; parts of such articles.	52.64	0.0270
65	Headgear and parts thereof.	3.59	0.0018
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips,	4.16	0.0021
68	Articles of stone, plaster, cement, asbestos, mica or similar	342.48	0.1759
69	Ceramic products.	142.44	0.0732
70	Glass and glassware.	220.27	0.1131
71	Natural or cultured pearls, precious or semi-precious stones,	74304.69	38.1602
72	Iron and steel.	8059.57	4.1391
73	Articles of iron or steel	3978.46	2.0432
74	Copper and articles thereof	159.51	0.0819
75	Nickel and articles thereof.	58.64	0.0301
76	Aluminium and articles thereof	6444.88	3.3099
81	Other base metals; cermets; articles thereof.	3.11	0.0016
82	Tools, implements, cutlery, spoons and forks, of base metal;	903.54	0.4640
83	Miscellaneous articles of base metal.	65.21	0.0335
84	Nuclear reactors, boilers, machinery and mechanical	4822.72	2.4768
85	Electrical machinery and equipment and parts thereof; sound	2769.48	1.4223
87	Vehicles other than railway or tramway rolling stock, and	1098.57	0.5642
88	Aircraft, spacecraft, and parts thereof.	140.78	0.0723
90	Optical, photographic, cinematographic, measuring,	271.26	0.1393
91	clocks and watches and parts thereof.	14.9	0.0077
92	Musical instruments; parts and accessories of such articles.	3.12	0.0016
93	Arms and ammunition; parts and accessories thereof.	3.36	0.0017
94	Furniture; bedding, mattresses, mattress supports, cushions	24.26	0.0125
95	Toys, games and sports requisites; parts and accessories	39.38	0.0202
96	Miscellaneous manufactured articles.	469.37	0.2411
97	Works of art, collectors' pieces and antiques.	9	0.0046
98	Project Goods; some special uses.	4.16	0.0021
99	Miscellaneous goods.	212.02	0.1089
	<b>Total</b>	<b>194717.75</b>	<b>100.00</b>

Source: G.O.I., DGCIS, *Monthly Statistics of Foreign Trade of India, Exports*, March 2000.

18. Table 5B gives a list of India's top 20 export commodities (at 6-digit HS level) to Thailand. 'Other non-industrial diamonds' amount for around 34.8 per cent of India's exports to Thailand, followed by 'Oil cakes and other solid residues - whether or not

ground or in the form of pellet’, ‘shrimps and prawns frozen’, ‘castor oil and its fractions’, etc. It shows that a large proportion of India’s export is concentrated in a particular commodity, i.e. ‘non-industrial diamonds’, and hence it is vulnerable. The corresponding Thailand’s tariff rates for this commodity is zero per cent. Hence, there is no scope of trade expansion for this commodity.

<b>Table 5B: India's Exports to Thailand during 1999-2000: Top Twenty Commodities</b>			
<b>HS Code (6-digit HS Level)</b>	<b>Description</b>	<b>Value (Rs Lakhs)</b>	<b>% share of India's exports from Thailand</b>
710239	Other non-industrial diamonds	67813.52	34.82671
230400	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from t	12148.98	6.23930
30613	Shrimps and prawns frozen	6152.31	3.15962
151530	Castor Oil and Its Fractions	5636.14	2.89453
760110	Aluminium, not alloyed	5304.62	2.72427
710399	Otherwise worked other precious and semi-precious stone	4384.73	2.25185
380810	Insecticides	3867.02	1.98597
270750	Other Armtc Hydcrbn Mxtrs of Shich 65 Prcntor More by Vol (incl.dng Losses) Distls At 250 Dgr.C. by	3534.6	1.81525
294110	Penicillins and their derivatives with a penicillanic acid structure; salts thereof	3484.71	1.78963
730820	Towers & lattice masts of iron or steel	2420.76	1.24322
721113	Flat-rolled products not further worked than hot-rolled, rolled on four faces of width exceeding 15	2188.76	1.12407
294200	Other organic compounds.	2094.71	1.07577
520811	Plain weave, weighing not more than 100 g/m2.	2031.88	1.04350
381710	Mixed alkylbenzene	1997.22	1.02570
300490	Other medicaments (excluding goods of heading 3002,3005,3006) consisting of mixed or unmixed produc	1952.28	1.00262
520511	Measuring 714.29 decitex or more (not exceeding 14 metric number)	1719.73	0.88319
520911	Plain weave	1497.99	0.76932
290342	Dichloro Difluoro Ethane	1416.73	0.72758
500310	Not carded or combed	1415.13	0.72676
300420	Containing other antibiotics.	1397.02	0.71746
	<b>Total</b>	<b>132458.84</b>	<b>68.026</b>

Source: G.O.I., DGCIS, *Monthly Statistics of Foreign Trade of India, Exports*, March 2000.

#### IV. Exports Facing High Tariff: Identification of Commodity Groups

19. Thailand defines its import custom duties at 8-digit HS level for 5358 commodities/lines. Out of these 5358, 172 commodities/lines are duty free. In 1999 the average MFN *ad valorem* tariff of Thailand's imports was 16.9 per cent, and the range of tariff rates was 0-80 per cent. A frequency distribution of different commodities (or lines) by level of Thailand's MFN import duty rates is given in Table 6. Amongst the different agricultural commodity groups (defined by different Chapters of HS Classification), the peak MFN (average) tariff, of 60 per cent, was noticed in commodity groups 'meat and edible meat offal' (chp.2), 'fish and crustaceans, molluscs and other aquatic invertebrates' (chp.3), 'live trees and other plants; bulbs; roots and the like - cut flowers and ornamental foliage' (chp.6) and 'edible fruit and nuts; peel or citrus fruit or melons' (chp. 8). Among the industrial commodities, the maximum tariff (average) of 53.8 per cent was noticed in commodity group 'articles of apparel and clothing accessories, not knitted or crocheted' (chp.62). A large number of other industrial commodity groups have more than 25 per cent MFN (average) tariff: 'articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut-other than silk-worm gut' (chp.42), ' manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork' (chp.46), 'articles of apparel and clothing accessories, knitted or crocheted' (chp.61), 'other made-up textile articles; sets; worn clothing and worn textile articles; rags' (chp.63), 'footwear, gaiters and the like; parts of such articles' (chp.64), 'headgear and parts thereof' (chp.65), 'prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair, (chp.67), 'arms and ammunition; parts and accessories thereof' (chp.93).

<b>Table 6: Thailand: Number of tariff lines* by level of different MFN Tariff Rates, 1999</b>		
<b>MFN Tariff Rate (%)</b>	<b>No. of Lines</b>	<b>% Share (of total lines)</b>
Duty Free (0%)	172	3.20
0.1-5.0%	1579	29.50
5.1-10%	1313	24.50
10.1-15%	145	2.70
15.1-35%	1601	29.90
35.1-80%	548	10.20
<b>TOTAL</b>	<b>5358</b>	<b>100.00</b>
<b>Average Tariff = 16.94 per cent</b>		
* at 8-digit level		
Source: WTO, IDB CD-ROM, Dec. 2000.		

20. Reduction in tariffs, owing to formation of bilateral FTA between India and Thailand, will lead to (i) increase in trade among member countries, which may be owing to trade creation and trade diversion,<sup>8</sup> and (ii) revenue loss to member countries. The extent of changes in imports depends on many factors, including (a) level of tariff in pre-FTA period, (b) depth of tariff concession in FTA/PTA, (c) price elasticity of export supply of originating country, and (d) price elasticity of import demand of destination country.
21. To identify different products/sectors and the extent of possible market access (to India) owing to India–Thailand PTA/FTA, we matched the amount of India’s total exports (of different commodity groups) with corresponding level of MFN tariff (average) rates (of different commodity groups) of Thailand. A broad picture of this matching for different commodity groups (at two-digit HS level, commonly known as Chapters of HS classification) is depicted in Figure 3. One can notice from this figure that India has been exporting a large amount of some select commodity groups, even though it is facing high level of Thailand’s MFN tariff. In other words, India has export (or price) competitiveness in these sectors and possible extent of tariff concession in Thailand’s MFN tariff rates is significant.
22. The list of commodity groups in which (a) Indian exports are significant, and (b) Thailand’s MFN tariff rates are high, can be identified as: (i) fish and crustaceans, molluscs and other aquatic invertebrates (HS chp.3), (ii) edible fruit and nuts; peel or citrus fruit or melons (chp.8), (iii) coffee, tea, mate and spices (chp.9), (iv) articles of apparel and clothing accessories, knitted or crocheted (chp.61), and (v) articles of apparel and clothing accessories, not knitted or crocheted (chp.62). Further, commodity groups, like ‘vegetable seeds; edible vegetables and certain roots and tubers’ (chp.7), ‘oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder’ (chp.12), ‘miscellaneous edible preparations’ (chp.21), ‘raw hides and skins (other than furskins) and leather’ (chp.42), ‘articles of apparel and clothing accessories, not knitted or crocheted’ (chp.63), ‘footwear, gaiters and the like; parts of such articles’ (chp.64), ‘vehicles other than railway or tramway rolling-stock, and parts and accessories thereof’ (chp.87), also have India’s export potential facing high tariff (average) in Thailand, but the extent of potential is relatively low.

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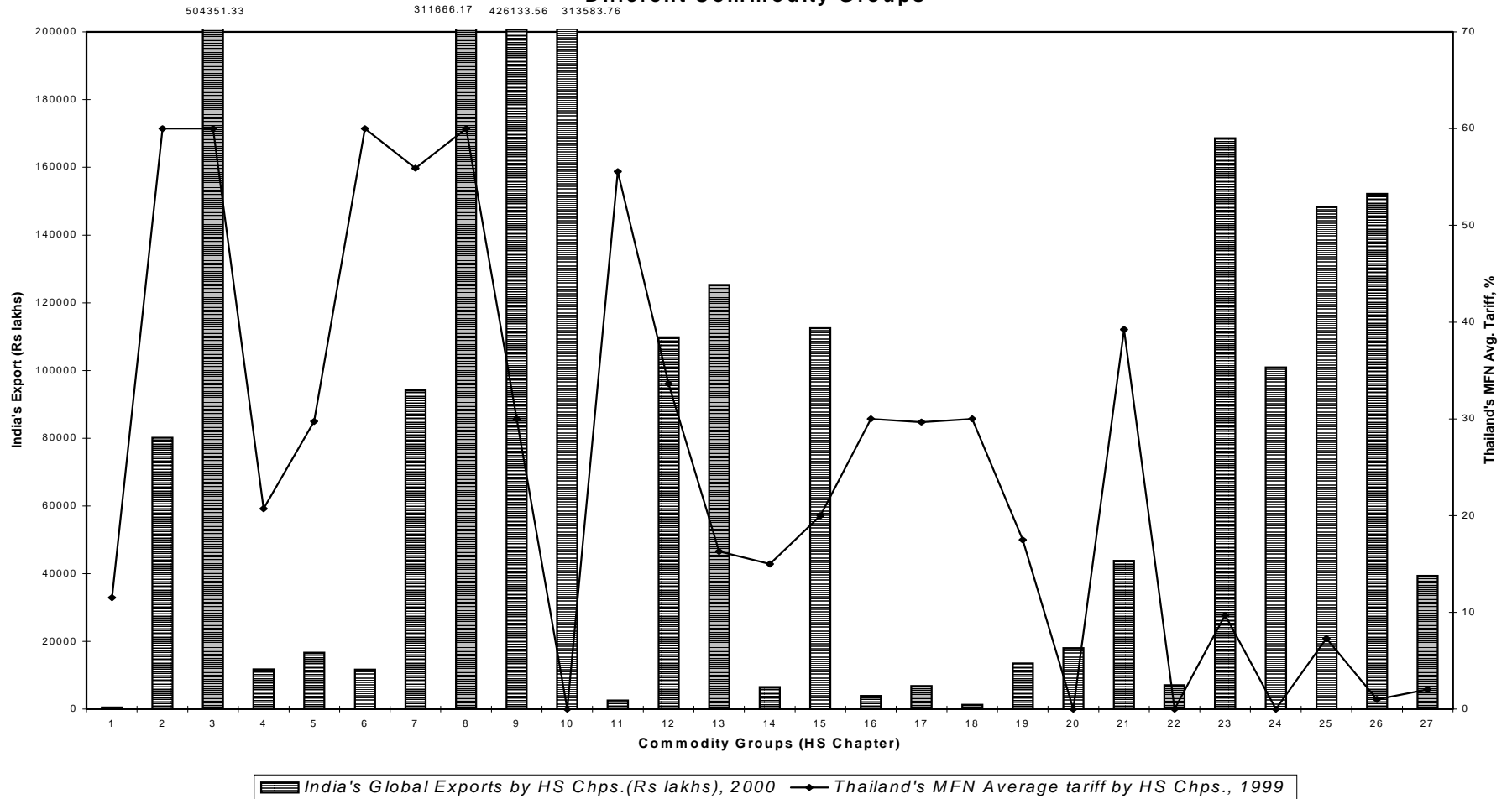
<sup>8</sup> For details of terms like ‘trade diversion’ and ‘trade creation’, see Section V.

23. The above analysis gives a broad picture of commodity groups in which India can have significant market access (in Thailand) for select products/sectors. For identification of specific commodities at disaggregate level (say at 6-digit or 8-digit level of classification of Harmonised System), one has to examine India's exports' prices (viz.-a-viz. prices of other countries) with corresponding Thailand's tariff rates.
24. As mentioned earlier, Thailand has export competitiveness in agricultural and some selected manufactured products. The important sectors are 'rice' (of HS chp.10), 'rubber and articles thereof' (chp.40) and 'plastics and articles thereof' (chp.39). India's tariff rates of these products are relatively high,<sup>9</sup> as is shown in Figure 4. Other commodities of Thailand's exports which face relatively high level of India's (average) tariff are 'fish and crustaceans, molluscs and other aquatic invertebrates' (chp.3), 'articles of apparel and clothing accessories, knitted or crocheted' (chp.61), 'articles of apparel and clothing accessories, not knitted or crocheted' (chp.62), 'footwear, gaiters and the like; parts of such articles' (chp.64), 'natural or cultured pearls, precious or semi precious stones, precious metals, metal clads etc.' (chp.71), 'electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles' (chp.85), and 'vehicles other than railway or tramway rolling-stock, and parts and accessories thereof' (chp.87). If a PTA/FTA is formed between India and Thailand, India can provide significant market access for the products of these commodity groups to Thailand.

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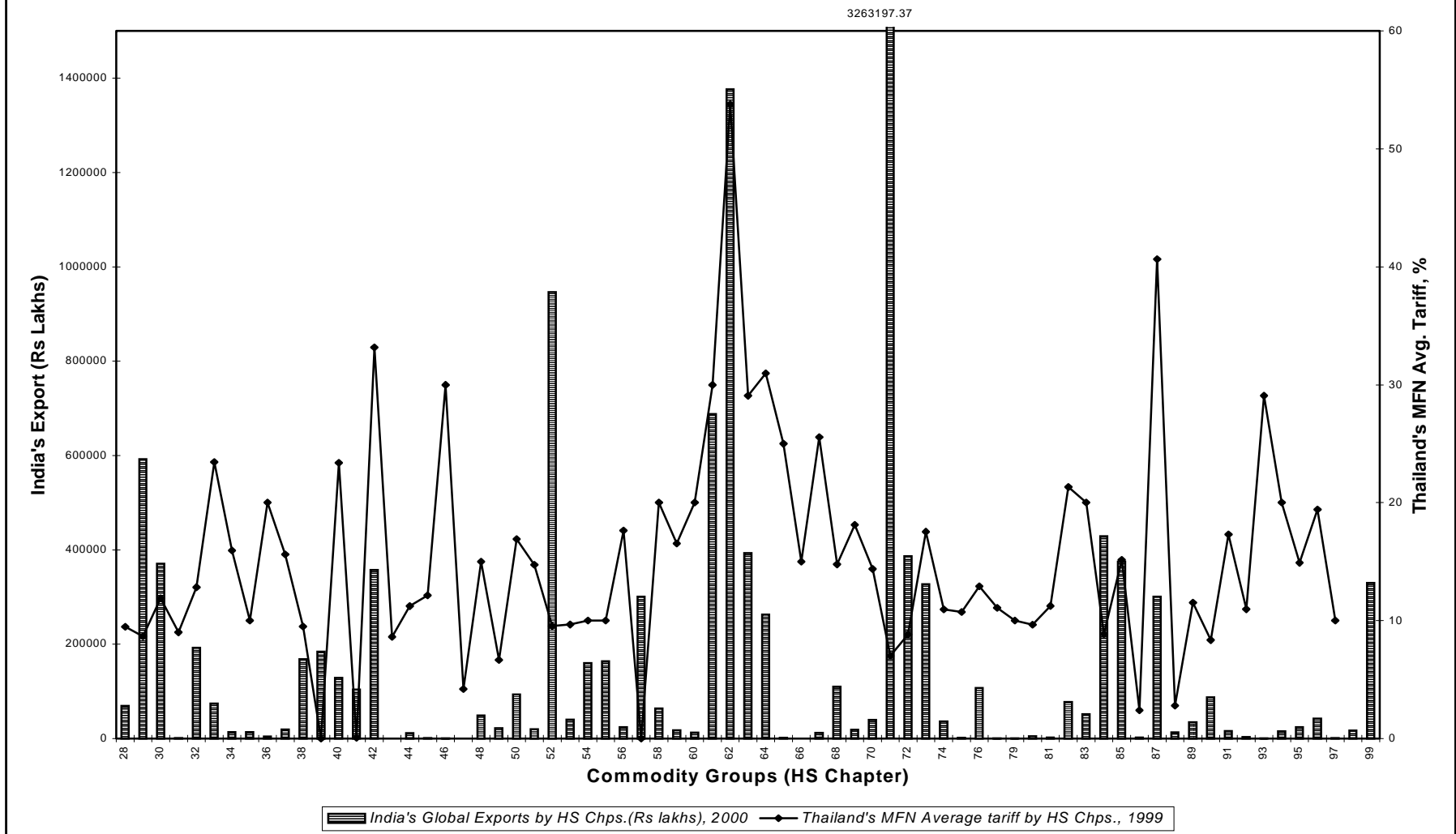
<sup>9</sup> Tariff of 'Rice' was 70-80 per cent in 2001-02.

**Fig.3: Level of India's Global Export Facing Thailand Tariffs for Different Commodity Groups**

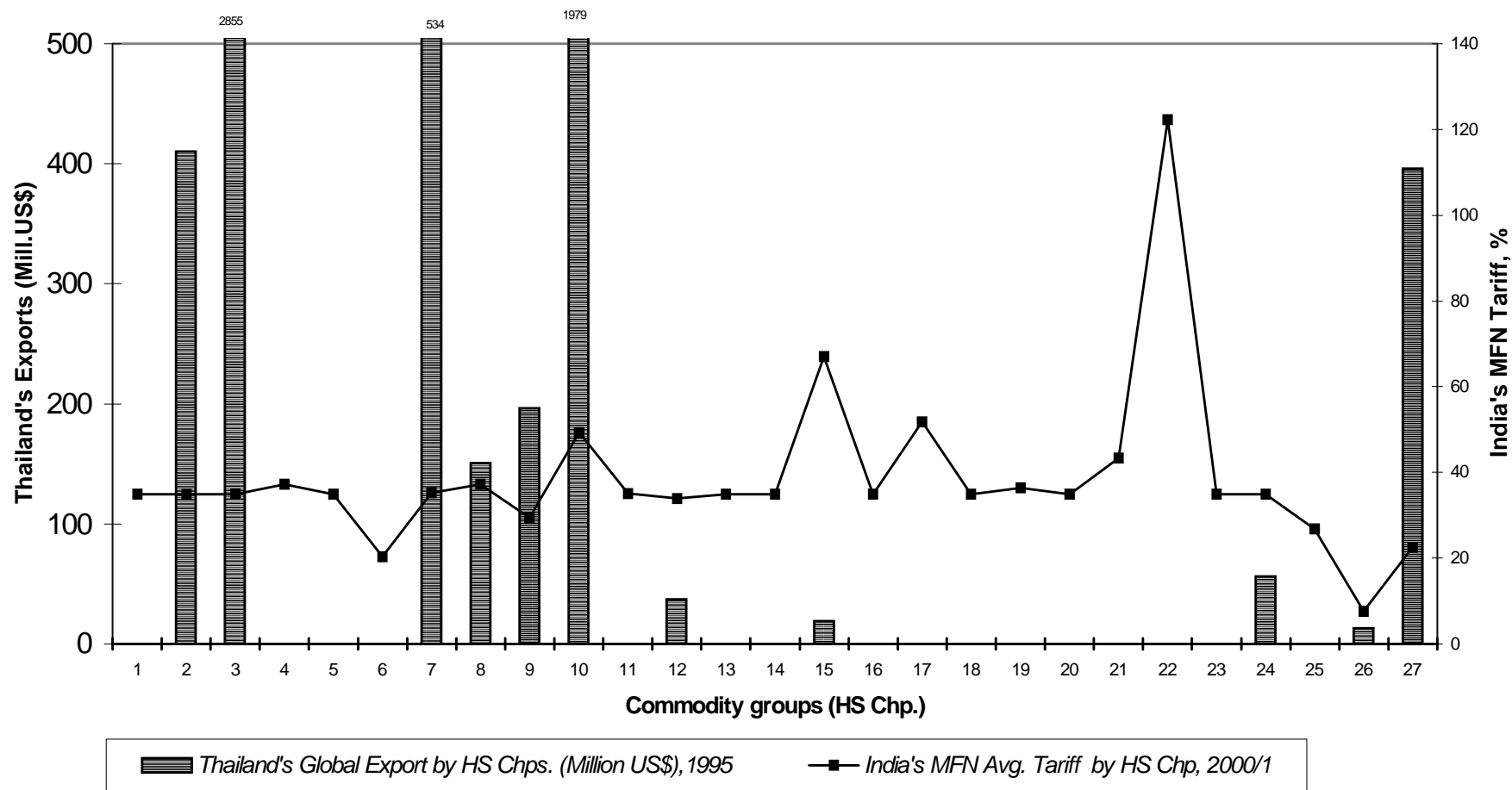


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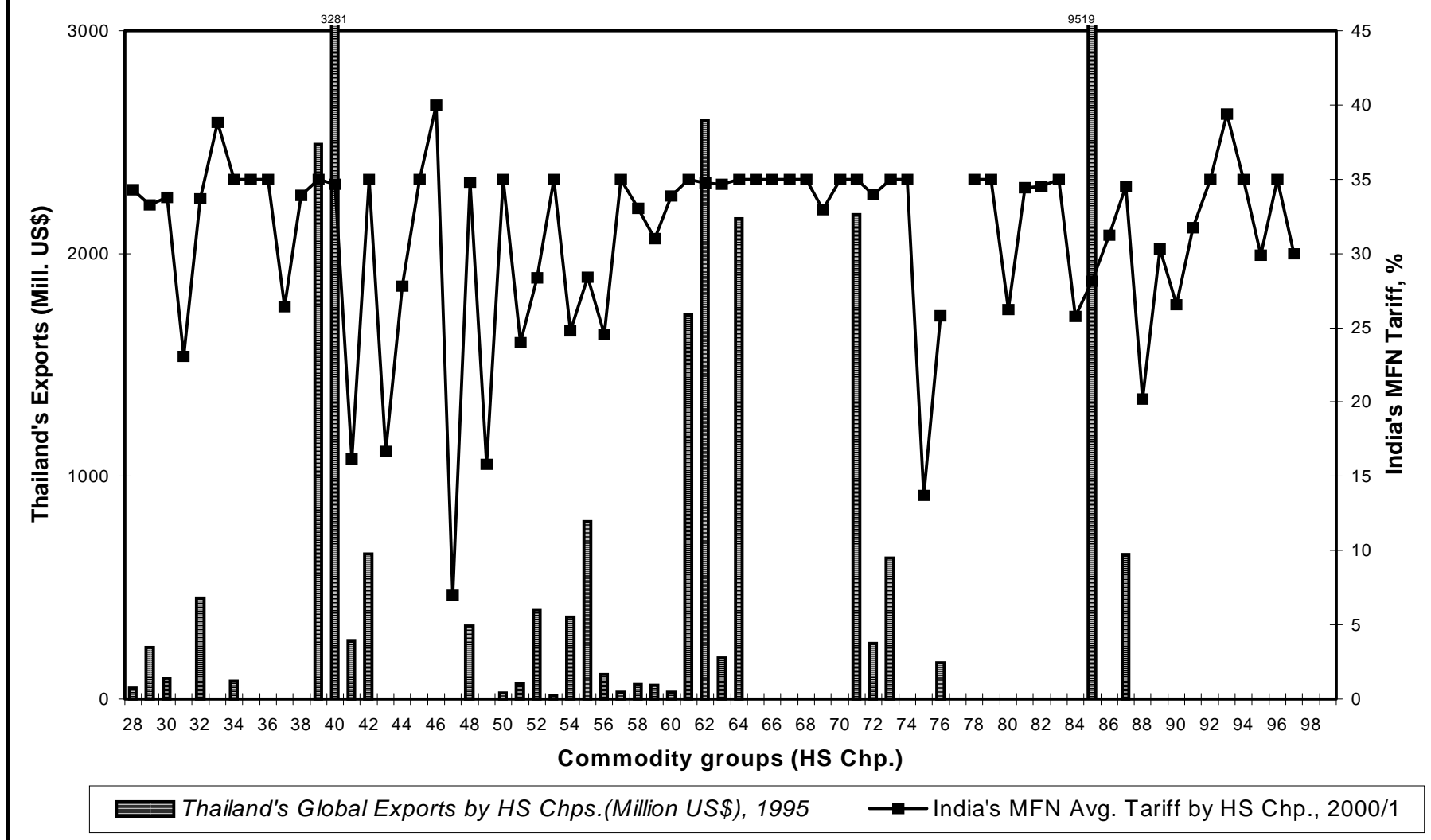
**Fig 4: Level of Thailand's Global Export Facing India's Tariffs, for different Commodity Groups**



*Fig.4....contd.*



Fig 4 (Contd.)



## V. Trade Creation and Trade Diversion: A Brief Note

24. In 1950s, the theory of *custom union*<sup>10</sup> was established during the first wave of economic co-operation/integration between different states. Since then the concepts of ‘trade-creation’ and ‘trade diversion’ have been widely employed for investigating the welfare of an economic union, a custom union (CU) or FTA or PTA. In general, a FTA/PTA confers on a country two advantages: (a) an expansion of consumption opportunities by making low cost goods available, and (b) a shift of resources into more productive areas, thereby enhancing production efficiency. When a FTA/PTA is formed, there are two conflicting movements: (a) towards lower cost sources for some goods, and (b) towards higher cost sources for other. Specifically, when Thailand imports from India (after formation of PTA/FTA), what it previously produced at home, new trade is ‘created’. Indian products are now imported because they are cheaper, and so efficiency is also lifted up. On the other hand, when India imports from Thailand (after formation of PTA/FTA) that it previously imported from third countries (other than India and Thailand) than trade is ‘diverted’, and efficiency falls. The former effect is called ‘trade creation’ and latter is ‘trade diversion’. In practice, a FTA/PTA will set in motion both sets of forces: trade creation in some products and trade diversion in certain others. Therefore, to say whether a PTA/FTA increases or decreases welfare, one has to measure relative magnitudes of trade creation and trade diversion. If trade creation dominates, then in static framework it is a case of positive production gain and hence there is rise in welfare. On the other hand, if trade diversion dominates, then it is a clear sign of negative production effect, and hence a loss of welfare.<sup>11</sup> However, this theory has been challenged in dynamic framework<sup>12</sup>, and a number of other aspects like ‘natural partners’, ‘common border’, etc. have also been incorporated to analyse the impact of FTA/PTA.<sup>13</sup>

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<sup>10</sup> See for instance, Viner, J. (1950), *The Custom Union Case*, Carnegie Endowment for Peace, New York; and Meade, J. (1955), *The Theory of Custom Union*, North Holland, Amsterdam.

<sup>11</sup> In the WTO framework, the regional bilateral FTAs are recognised if trade creation is more than trade diversion.  
<sup>12</sup> Sometimes known as *scale effect* and *competition effect*, see, among others, Owen, N. (1983), *Economic of Scale, Competitiveness and Trade Patterns within the European Community*, Calarendon Press, Oxford.

<sup>13</sup> See, for example, Pangariya, A. (2000), “Preferential Trade Liberalisation: The Traditional Theory and New Development”, *Journal of Economic Literature*, Vol. XXXVIII, No.2, June 2000, pp.287-331.

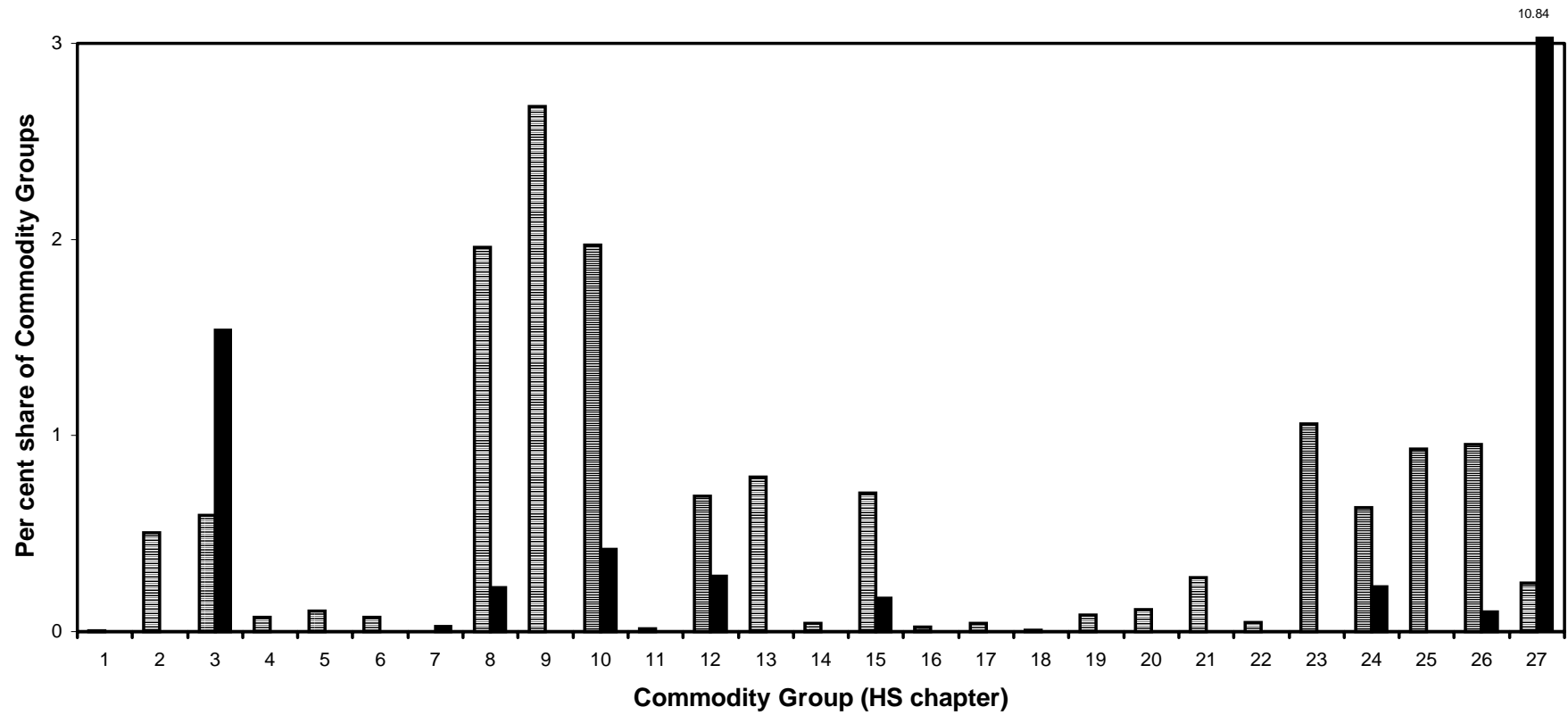
## VI. Trade Expansion between India and Thailand: Identification of Commodity Groups

25. In this study, we have not estimated the extent of trade creation and trade diversion that may occur owing to formation of India-Thailand FTA/PTA. We match total exports (or imports) of India with corresponding total imports (exports) of Thailand, for different commodity groups. This may give an idea of: (i) export potential of supplying country, (ii) export competitiveness of supplying country, and (iii) import demand of importing country. This concept is sometimes called complementarity in trade<sup>14</sup>. It will help us to examine the potential of trade expansion in member countries, i.e. India and Thailand.
26. Figure 5 presents a measure of complementarity between India's exports with Thailand's imports, for different commodity groups (defined by HS chapters), i.e. share of India's exports of different commodity groups (in its global exports) is matched with corresponding share of Thailand's import (in its global imports). One can notice from this graph that India's exports as well as Thailand's imports are significant in a large number of commodity groups. These commodity groups are 'fish and crustaceans, molluscs and other aquatic invertebrates' (HS chp.3), 'cereals and cereal products' (chp.10), 'oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit etc.' (chp.12), 'tobacco and manufactured tobacco substitutes' (chp. 24), 'inorganic chemicals' (chp. 28), 'organic chemicals' (chp.29), 'tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and colouring matter' (chp.32), 'plastics and articles thereof' (chp.39), 'rubber and articles thereof' (chp.40), 'raw hides and skins (other than furskins) and leather'(chp.41), 'man made filaments' (chp.54), 'man made staple fibres' (chp. 55), 'natural or cultured pearls , precious or semi precious stones , precious metals , metal clads etc.' (chp.71), 'articles of iron and steel' (chp.73) and 'aluminium and articles thereof' (chp. 76). Among these identified commodities groups, Thailand's (average) tariff rates of commodity groups; 'Fish and crustaceans, molluscs and other aquatic invertebrates' (chp.3), 'Oil seeds and oleaginous fruits miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder' (chp.12), 'Rubber and articles thereof' (chp.40) and 'Articles of Iron or steel' (chp.73) are significantly higher than Thailand's overall average tariff. Hence these are the main sectors in which India's export to Thailand will certainly increase after formation of PTA/FTA.

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<sup>14</sup> A number of measures like (i) Cosine measure and (ii) Finger-Krenin exist in literature. For details for these measures, see Panhamukhi, V.R. etc., *Complementarity in Trade and Production: Intra-South Potential*, Sage Publication, 1995.

**Fig 5: Complementarity between India's Export and Thailand's Import for Different Commodity Groups**

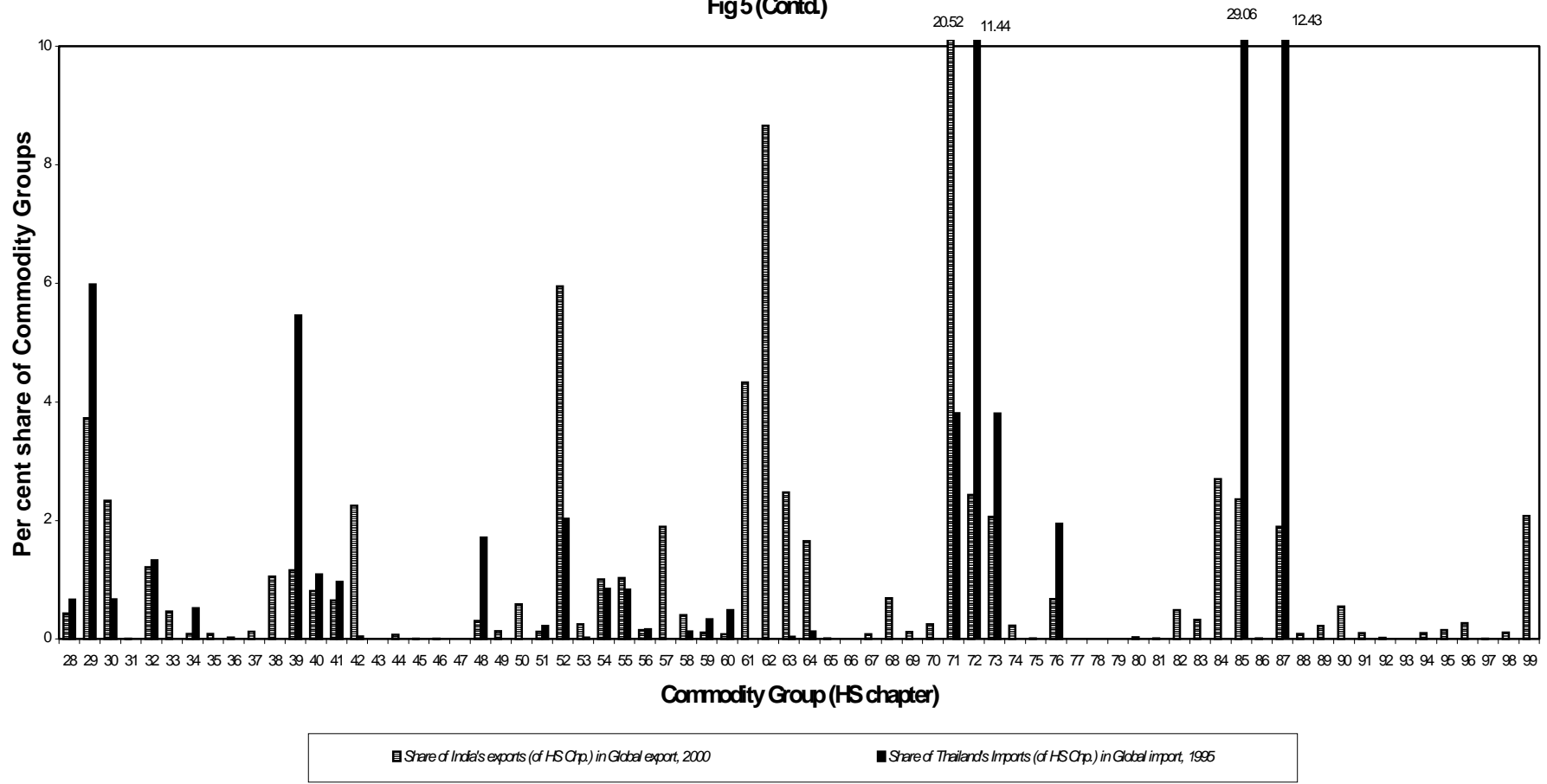


▨ Share of India's exports (of HS Chp.) in Global exports, 2000

■ Share of Thailand's Imports (of HS Chp.) in Global import, 1995

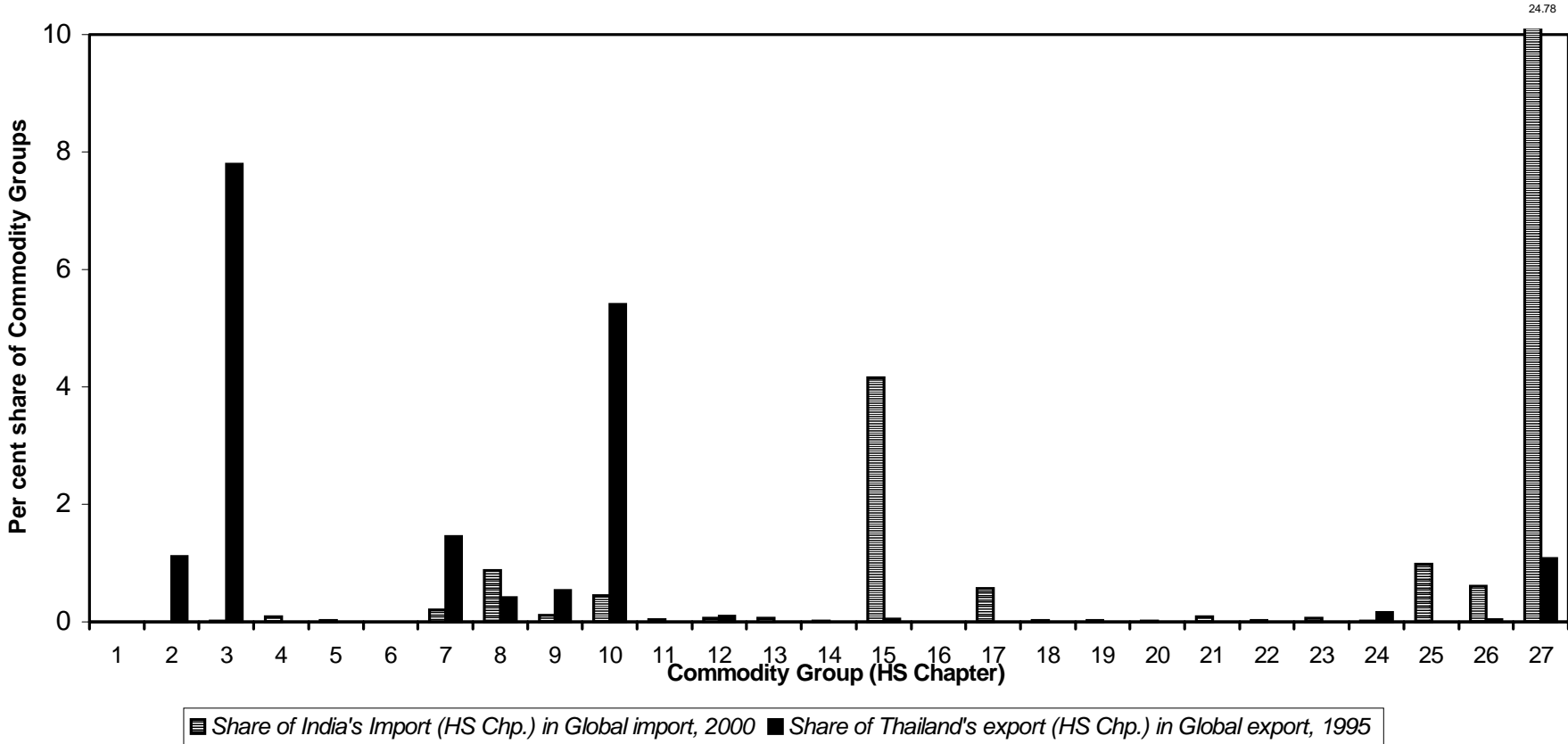
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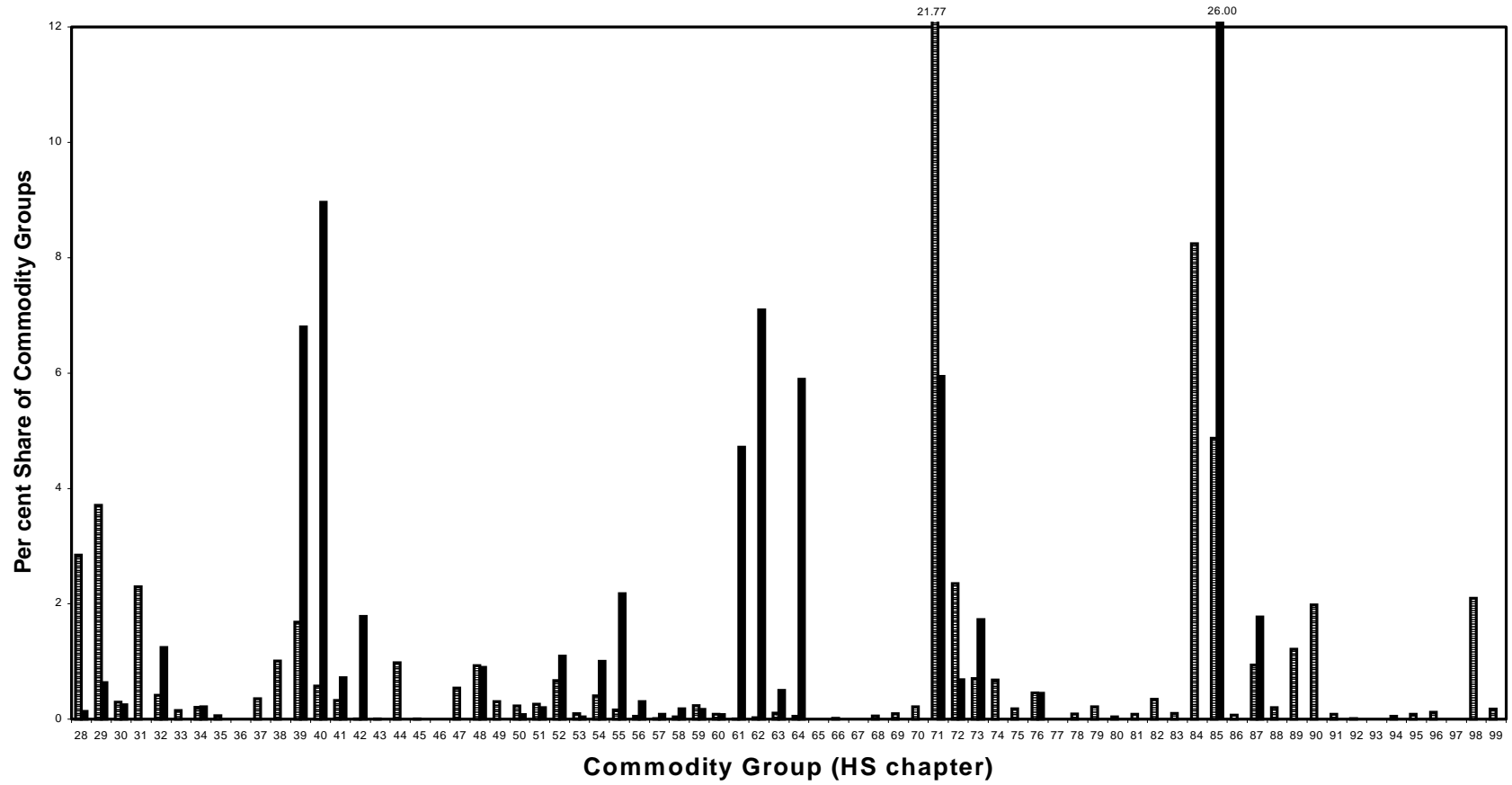
27. Figure 6 present a measure of complementarity between Thailand's exports and India's imports, of different commodity groups defined by HS chapters. One can notice from this graph that Thailand's exports as well as India's imports are significant in commodity groups like 'edible fruit and nuts; peel or citrus fruit or melons' (chp.8), 'mineral fuels mineral oils and products of their distillation; bituminous substances; mineral wax' (chp.27), 'organic chemicals' (chp.29), 'pharmaceutical products' (chp.30), 'plastics and articles thereof' (chp.39), 'paper and paperboard; articles of paper pulp, of paper or of paperboard' (chp.48), 'cotton' (chp.52), 'natural or cultured pearls, precious or semi-precious stones, precious metals, metal clads etc.' (chp.71), 'iron and steel' (chp.72) 'articles of iron and steel' (chp.73), 'aluminium and articles thereof' (chp.76) and 'electrical machinery and equipment and parts thereof sound recorders etc.' (chp.85). Among these identified commodity groups, it should be noted that India's MFN (average) tariff rate is relatively higher for commodity groups defined by HS chapters 'edible fruit and nuts; peel of citrus fruit or melons' (chp.8), 'plastics and articles thereof' (chp.39), 'natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin' (chp.71), and 'articles of iron or steel' (chp.73). In these sectors India can provide significant market access to Thailand.

**Fig 6: Complementarity between Thailand's Export and India's Import, for Different Commodity Groups**



*Fig.6...contd.*

Fig 6 (Contd.)



Share of India's Import (HS Chp.) in Global import, 2000
  Share of Thailand's export (HS Chp.) in Global export, 1995



## VII. Regional Trading Arrangements of India and Thailand

28. Thailand is a signatory to several regional trade and economic co-operation pacts, including the Bangkok Agreement of 1975, which call for the mutual reduction of import duties among various South and Southeast Asian countries. The principal trading bloc to which Thailand is a signatory is the Association of Southeast Asian Nations (ASEAN), together with Brunei, Indonesia, Malaysia, the Philippines and Singapore. Vietnam, Cambodia, Laos and Myanmar are its new members. Preferential rates are granted to goods originating from any of these countries. India was a Sectoral Dialogue partner of ASEAN, which was established in March 1993 in three areas, namely, trade, investment and tourism. Since the dialogue relationship began, development co-operation between ASEAN and India has expanded considerably. At present, India is 'full-dialogue' partner of ASEAN, and is likely to become a member of ASEAN 'Summit'.
29. Thailand is a full member of ASEAN, whose members agreed to establish the ASEAN Free Trade Area (AFTA) and introduced the Common Effective Preferential Tariff (CEPT) as the core mechanism for implementing AFTA. Thailand is also a member of the APEC forum, which decided to achieve full and open trade and investment in the region by 2010-2020 as per the Bogor Declaration.
30. A large number of steps have been taken under AFTA toward economic integration process. The ultimate goal of the AFTA is to eliminate (a) import duties on all products, (b) quantitative barriers, and (c) other Non-Tariff Barriers. At present, most of the commodities/tariff lines of 'inclusion list' (85 per cent of total lines) of the six original signatories of ASEAN are already in 0 to 5 per cent range, for preferential treatment.
31. Apart from the different steps undertaken in AFTA scheme, a number of other measures have been taken by ASEAN for economic integration. Some of these measures are: (i) *ASEAN Industrial Co-operation Scheme (AICO)*: The scheme uses AFTA framework and is open to the manufacturing enterprises whose companies are operating in at least two ASEAN countries. When these companies enter into strategic alliance, the products traded between them are given 'Free' treatment, (ii) *Framework Agreement on Services*: The agreement intends to integrate the ASEAN market for services by eliminating restriction in trade in services. Beyond the commitments made in general agreement in trade in services (GATS), the final goal of the

agreement is to realise free trade area in services, and (iii) *Other Economic Integration Measures*: A number of steps have also been taken by ASEAN Economic Integration process in many other fields including food security, promotion of E-commerce, infrastructure development through energy, transport and communication.

32. India is a member of South Asian Association for regional co-operation (SAARC) and Indo-Sri Lanka Free Trade Agreement (ILFTA). Under SAARC, the member countries have adopted South Asian Preferential Trading Arrangements (SAPTA). India has given concession to other member countries, but significant concession is given to only LDCs of SAARC. ILFTA is very comprehensive treaty in which India is giving free access to commodities of Sri Lanka.
33. Both India and Thailand are member of (i) Bangkok Agreement (established in 1975), (ii) BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Co-operation, and (iii) IOR-ARC (India Ocean Rim Association for Regional Co-operation). However, no preferential/tariff arrangement has been agreed between India and Thailand in Bangkok Agreement, IOR-ARC and BIMSTEC. In the last meeting of BIMSTEC, however, it was decided that the association would lead to free trade agreement in near future.

## VIII. Rules of Origin in RTAs

34. In a PTA/FTA, rules of origin regime is applied to assure that the benefits of tariff reductions granted within member countries will be, in fact, applicable only to those products that are produced in each of the member countries, and not to the goods to be re-exported (imported from third countries) to a member country.<sup>15</sup> The estimation of optimum levels of rules of origin for different products of a PTA/FTA may be guided by proportion of imported inputs in a unit of domestic production of each commodity. Since this data are not available, the observation is made on the basis of (i) import to GDP ratio, and (ii) levels of rules of origin of other regional/bilateral FTAs where Thailand (or India) is a member.
35. Thailand has been a relatively open economy. In 1989, the imports (of goods and services) as a percentage of GDP was around 37.5 per cent; it has reached to the level of around 45 per cent in 1999. On the other hand, India is relatively less open economy if imports (of goods and services) as a percentage of GDP (15 per cent in 1999) is an indicator.
36. Under the ASEAN free trade agreement (AFTA), tariff preferences are accorded to goods with a minimum of 40 per cent ASEAN content. Preferential tariffs are classified under the Common Effective Preferential Tariff (CEPT). Agricultural goods are excluded from the scheme. Hence, in general 40 per cent can be considered as the rule of origin of ASEAN. Any product, which has more than 60 per cent of import contents, will not be eligible for preferential tariff for intra -regional trade in ASEAN. It is very difficult to believe that Thailand will agree for significant lower rate of 'rule of origin', if India forms an FTA/PTA with Thailand.
37. South Asian Preferential Trading Arrangement (SAFTA) defines 40 per cent rule of origin for preferential tariffs for intra-SAARC trade flows. Similarly, ILFTA also defines that Indo-Sri Lanka trade will get preferential tariff if the local domestic content of a unit of production is not more than 40 per cent.

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<sup>15</sup> To estimate an appropriate level of rules of origin for different sectors, see Mehta (2001), *Economic Cooperation between India and Singapore: A Feasibility Study* (mimeo), RIS.

## IX. Foreign Investment Flows in India and Thailand

38. Indian business can also take the advantage of Thailand's liberal attitude towards foreign investment. The Thai government recognises the important contribution of foreign investment to the domestic economy. Thai government has set up a Board of Investment to encourage foreign investment. Net foreign investment in Thailand peaked in 1990, with a total of Baht 64.7 billion, and has declined in subsequent years. The manufacturing sector receives the largest share of FDI. Following are the eligible sectors in which foreign investment is permitted: agriculture and agriculture products; minerals, metals and ceramics; light industry; metal products, machinery and transport equipment; electronics and electrical industry; chemical industry; paper and plastics; services and public utilities.<sup>16</sup>

	1991-1995	1996	1997	1998	1999	2000	2001*	1991-2001
							(Rs.in Mill.)	
<b>Thailand</b>	23490.1	765.22	259.44	3.45	70	3.75	...	24591.96
<b>Total of all Countries</b>	595398.9	361468.0	548913.4	308135.0	283665.3	370394.4	9843.21	2477818.4

\* Figures for 2001 updated upto 31/01/2001  
Source: GOI, *SIA Newsletter*, February 2001.

39. In the post-liberalisation period of Indian economy, Thailand emerged as an important investor country in India. It has made total investment (approved) of Rs.24592.96 mill. (until Jan, 2001) in India (Table 7), and most of this investment was made during 1991-95 era. A major portion of investment came in fisheries, telecommunications and real estate sectors.<sup>17</sup> Further process of development co-operation between the two countries is under operation.

<sup>16</sup> ASEAN Secretariat (1999), *Investing in ASEAN*.

<sup>17</sup> FIEO, "India-Thailand Trade and Economic Relations Record Steady Growth", <http://www.fieo.com>

## X. **Potential Benefits of FTA/PTA**

40. The potential benefits of a regional or bilateral trading arrangement can be examined in terms of 'global welfare', 'regional welfare' or 'national welfare'. In this note, we have tried to examine the possible welfare of Indo-Thailand FTA from Indian point of view, and to some extent from the Thailand's point of view.
41. At present, India's imports from world are US\$ 50434 mill. as compared to Thailand's imports of around US\$ 56915 mill.<sup>18</sup> Both these countries have captured a small market of each other. There is lot of scope that establishing a FTA will lead to significant increase in bilateral trade between India and Thailand.
42. It should be remembered that the present level of India-Thailand trade is low, but is increasing overtime. This increase has been noticed particularly in India's imports from Thailand. Consequently, the trade gap, which has traditionally been heavily in India's favour, has reduced considerably.
43. Thailand's import demands are quite high and India will be able to meet export supply for a large number of commodities of Thailand's import demands. The present level of Thailand's imports from India is small, hence India will be able to capture a large portion of Thailand's market for these commodities.
44. Thailand's average MFN rate is lower than that of India. On the surface it seems that India will give larger access to Thailand, but it may not be true, because India exports relatively a larger number of commodities than Thailand.
45. Before examining the extent of commercial benefits, it is important to examine in details the price competitiveness of different products. From the above documented analysis of trade structure of India and Thailand, it seems that India can capture Thailand's market for a large number of commodities, as compared to Thailand's access to Indian market.

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<sup>18</sup> For the year 2000.

## XI. Concluding Observations

46. Thailand is a middle-income country of Asia, with per capita income of US\$ 2064.36. It had adopted rapid industrialisation process during the 1970s and 1980s, leading to high growth (9.6 per cent per annum) of GDP during 1986-96. As a consequence of the East Asian financial crisis, Thailand also faced major macroeconomic problems during late 1990s. But, right now the economy as a whole has recovered reasonably.
47. Thailand is relatively a more open economy than India. The former's total exports (of goods and services) constitute around 57 per cent of GDP; the corresponding ratio of imports to GDP is around 44 per cent.
48. In 2000, Thailand exported goods worth US\$ 65.6 billion while the amount of its imports was US\$ 56.9 billion. India constitutes around 0.87 per cent of Thailand's total exports, while the share of India's imports in Thailand's total imports is around 1 per cent.
49. Thailand is an important trading partner of India. The amount of India's total exports to Thailand during 2000 was US\$ 547 million, while the corresponding amount of India's imports from Thailand was US\$ 622 million, resulting in a trade deficit of US\$ 75 million. In earlier years, India had had consistent trade surplus with Thailand.
50. India's imports from Thailand have been shown more or less an increasing trend - both in terms of value as well as percentage share (of its global imports). Almost similar trend has been noticed for India's exports to Thailand with the exception for the period 1995-1998 when India's share showed a declining trend.
51. Thailand's global exports are concentrated in few sectors like electronics, textile, gems and jewellery, rubber and rubber products, articles of plastics. However, a major share of India's import from Thailand consist of four commodity groups, viz. sugar & sugar products, plastic & plastic products, electric and non-electric machinery. These four categories constitute around 54 per cent of India's total import from Thailand. An analysis of distribution of India's imports (from Thailand) by specific commodities show that it is not concentrated to select commodities.
52. The basket of Thailand's total imports show that its imports are concentrated in a few specific commodities like petroleum and petroleum products, iron and steel, and machinery and transport equipment. The amount of India's exports to Thailand has been concentrated in a commodity 'other non-industrial diamonds', which constitute

around 35 per cent of India's export. The other important commodities of India's exports to Thailand are organic chemicals, oil-cake, prawns and shrimps, vegetable oils, etc.

53. Thailand defines its custom duties for 5358 commodities. The average MFN rate of Thailand's import is around 17 per cent and range of tariff rates is 0-80 per cent. The mega tariffs (around 60 per cent) have been noticed for a large number of agriculture commodities. Similarly, peak tariff have been noticed in select articles of apparel and clothing accessories, while high tariffs have been observed in commodities of leather and leather products, wood and wood products, other apparel and clothing accessories, footwear and other similar articles, etc.
54. Our results show that India has export potential in number of sectors, if a PTA/FTA is agreed between India and Thailand. The list of different commodity groups are (i) fish and crustaceans, molluscs and other aquatic invertebrates (HS chp.3), (ii) edible fruit and nuts; peel or citrus fruit or melons (chp.8), (iii) coffee, tea, mate and spices (chp.9), (iv) articles of apparel and clothing accessories, knitted or crocheted (chp.61), (v) articles of apparel and clothing accessories, not knitted or crocheted (chp.62), (vii) raw hides and skins (other than furskins) and leather (chp.42), (viii) articles of apparel and clothing accessories, not knitted or crocheted (chp.63), (ix) footwear, gaiters and the like; parts of such articles' (chp.64), (x) vehicles other than railway or tramway rolling-stock, and parts and accessories thereof (chp.87). These are the commodity groups in which (a) India has export competitiveness, and (b) Thailand has high level of MFN Tariffs.
55. This study also make an attempt to identify different commodity groups in which Thailand will be able to get market access in India owing to formation of FTA/PTA. The commodity groups in which Thailand can get market access in India are: 'rice', 'rubber and articles thereof' (HS chp.40), 'plastic and plastic products' (chp.39), 'fish and fish products', (chp.3) 'articles of apparel and clothing accessories, knitted or crocheted' (chp.61), 'articles of apparel and clothing accessories, not knitted or crocheted' (chp.62), 'footwear, gaiters and the like; parts of such articles' (chp.64), 'natural or cultured pearls, precious or semi-precious stones, precious metals, metal clads etc.' (chp.71), 'electrical machinery and equipment and parts thereof' (chp.85), and 'vehicles other than railway or tramway rolling-stock, and parts and accessories thereof' (chp.87).

56. A comparison of export baskets of India and Thailand show that both the countries have competitive advantage in commodity groups defined as ‘articles of apparel and clothing accessories-knitted or crocheted’ (HS chp.61), ‘articles of apparel and clothing accessories, not knitted or crocheted’ (chp.62), ‘natural or cultured pearls, precious or semi precious stones, precious metals, metal clads, etc.’ (chp.71). It is possible to enhance intra-industry trade in these commodity groups.
57. Both India and Thailand are members of **Bangkok Agreement**, **BIMSTEC** (Bangladesh, India, Myanmar, Singapore, Thailand Economic Cooperation) and **IOR-ARC** (Indian Ocean Rim Association for Regional Cooperation). Thailand is also a member of other regional trading arrangements like Association of Southeast Asian Nations (ASEAN) and Asia Pacific Economic Cooperation (APEC).
58. The member countries of ASEAN have agreed to establish ASEAN Free Trade Area (AFTA), with the ultimate goal to eliminate (i) import duties on all products, (ii) quantitative barriers, and (iii) other Non-Tariff Barriers. By 2002, all quantitative restrictions will be removed and tariffs will be either eliminated or limited to maximum of 5 per cent, for 85 per cent of tariff lines of the six original signatories of ASEAN. Thailand’s preferential tariff rates on import of all commodities (from other ASEAN countries) will be negligible by 2010. In case a bilateral FTA is agreed between India and Thailand, it is most likely that Thailand will not give tariff preferences to India for more than 85 per cent of its tariff lines, the tariff preferences for the rest of the items (15 per cent) can probably be given in 2010 or later.
59. This study has not examined in details the implication of FTA/PTA on ‘trade creation’ and ‘trade diversion’. However, it seems that a large portion of trade will be ‘trade creation’. This also does not examine the detailed implication of (i) rule of origin and (ii) identification of specific commodities which should fall in different lists for negotiation (negative list, preferential tariffs, free tariffs, tariff-quota, etc), which can be guided by degree of domestic sensitivity to import. A detailed analysis should be conducted to examine these aspects.



## Annexure I: Definition of Different Commodity Groups Defined by Different Chapters of Harmonised System of International Trade Classification

HS Chapter	Definition
1	Live animals; animal products
2	Meat and edible meat offal
3	Fish and crustaceans, molluscs and other aquatic invertebrates
4	Bird's eggs; natural honey; edible products of animal origin, not elsewhere specified or included
5	Products of animal origin, not elsewhere specified or included
6	Live trees and other plants; bulb, roots and the like; cut flowers and ornamental foliage
7	Vegetable seeds; edible vegetables and certain roots and tubers
8	Edible fruit and nuts; peel of citrus fruit or melons
9	Coffee, tea, mate and spices
10	Cereals
11	Products of the milling industry; malt; starches; inulin wheat gluten
12	Oil seeds and oleaginous fruits miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder
13	Lac; gums, resins and other vegetable saps and extracts
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included
15	Animals or vegetable fats and oils and their cleavage product; prepared edible fats; animal or vegetable waxes
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates
17	Sugars and sugar confectionery
18	Cocoa and cocoa preparations
19	Preparations of cereals, flour, starch or milk; pastrycooks' products
20	Preparations of vegetables, fruit nuts or other parts of plants
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
23	Residues and waste from the food industries; prepared animal fodder
24	Tobacco and manufacture; tobacco substitutes
25	Salt; Sulphur; earths and stone; plastering materials, lime and cement
26	Ores, slag and ash
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes
28	Inorganic chemicals; organic or inorganic compounds of precious metals, or rare-earth metals, of radioactive elements or isotopes
29	Organic chemicals
30	Pharmaceutical products
31	Fertilizers
32	Tanning or dyeing extracts tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks
33	Essential oils and resinoids; perfumery cosmetic or toilet preparations
34	Soap, organic surface-active agents, washing preparations, lubrication preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modelling pastes, "dental waxes" and dental preparations with a basis of plaster
35	Albuminoidal substances; modified starches; glues; enzymes
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations
37	Photographic or cinematographic goods
38	Miscellaneous chemical products
39	Plastics and articles thereof
40	Rubber and articles thereof

41	Raw Hides and skins (other than furskins) and leather
42	Articles of leather; saddlery and harness; travel goods; handbags and similar containers; articles of animal gut (other than silk-worm gut)
43	Furskins and artificial fur; manufactures thereof
44	Wood and articles of wood; wood charcoal
45	Cork and articles of cork
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper of paperboard
48	Paper and paperboard; article of paper pulp, of paper or of paperboard
49	Printed books, newspapers, pictures and other products of the printing industry
50	Manuscripts, typescripts and plans
51	Silk
52	Wool, fine or coarse animal hair, horse hair yarn and woven fabric
53	Cotton
54	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn
55	Man-made staple fibres
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
57	Carpets and other textile floor coverings
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of kind suitable for industrial use
60	Knitted or crocheted fabrics
61	Articles of apparel and clothing accessories, knitted or crocheted
62	Articles of apparel and clothing accessories, not knitted or crocheted
63	Other made up textile articles; sets; worn clothing and worn textile articles; rags
64	Footwear, gaiters and the like; parts of such articles
65	Headgear and parts thereof
66	Umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops, and parts thereof
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair
68	Articles of stone, plaster, cement, asbestos, mica or similar materials
69	Ceramic products
70	Glass and glassware
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin
72	Iron and steel
73	Articles of Iron or steel
74	Copper and articles thereof
75	Nickel and articles thereof
76	Aluminium and articles thereof
77	Reserved for possible future use in Harmonised System
78	Lead and articles thereof
79	Zinc and articles thereof
80	Tin and articles thereof
81	Other base metals; cermets articles thereof
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof base metal
83	Miscellaneous articles of base metal
84	Nuclear reactors, boilers, machinery and mechanical appliances, parts thereof
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles
86	Railway or tramway locomotives, rolling-stock and parts thereof; rail-way or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds

87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof
88	Aircraft, spacecraft and parts thereof
89	Ships, boats and floating structures
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
91	Clocks and watches and parts thereof
92	Musical instruments parts and accessories of such articles
93	Arms and ammunition; parts and accessories thereof
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
95	Toys, games and sports requisites; parts and accessories thereof
96	Miscellaneous manufactured articles
97	Works of art, collectors' pieces and antiques
98	Project imports; laboratory chemicals; passengers' baggage; personal importations by air or post; ship stores;
99	Miscellaneous goods

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