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Understanding India's Regional Initiatives within Asia

Rupa Chanda and Sasidaran G.[1]

1. Introduction

In the past two decades, most economies in the world have entered into various kinds of regional and bilateral agreements. These include free trade agreements, preferential trade agreements, economic cooperation and economic partnership agreements, among others, and are between countries with similar as well as vastly different levels of development, and both within and across regions. Since 1995, the number of notifications of such Preferential Trading Agreements (PTAs)[2] to the World Trade Organization (WTO) has proliferated with the number exceeding 220 in 2005.[3] However, the number of PTAs that have not been reported to the WTO is even larger. Of those that have been notified, a total of 185 agreements were concluded between 2000 and 2007 alone, or just under half the total number of agreements that were concluded during the entire twentieth century, indicative of the spurt that has been witnessed in regional integration in recent years.

Such a rapid proliferation of PTAs has led to calls for an assessment of these agreements in the WTO in order to examine whether they meet the conditions laid down in Article 24 of the WTO and formerly the GATT. It has also aroused much debate over whether such agreements are building or stumbling blocks to multilateralism, whether they are proliferating as an alternative to multilateral liberalisation or whether they are likely to complement the multilateral process by helping to instill confidence in trade liberalisation at the bilateral and regional levels. Some economists contend that these agreements could possibly create vested interests against multilateral liberalisation given their potential to detract from the rights and obligations set forth in the WTO, thereby causing greater distortions in the world trading system.[4] On the other hand, some other economists contend that PTAs are "spurs to the more hesitant development of the multilateral system and that small groups of developing countries may see value in liberalising within regional trade arrangements as a means of working their way up to the harsher competitive realities of the global economy." While the debate goes on

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2 We refer to bilateral Free Trade Agreements and Regional Trade Agreements collectively as Preferential Trading Agreements through out this chapter.

3 Gibbs and Wagle (2005).

4 Ibid.

without any consensus, more and more countries continue to enter into regional and bilateral agreements.

The Asian economies have entered into or are in the process of entering into trade agreements among themselves. More than half of the 60 or so agreements that the major economies in the Asia-Pacific region have entered into involved countries from the region (see Table 1). Intra-regional trade has been growing rapidly, with intra-regional exports surpassing their exports to the United States, their main export market. The reasons underlying this spurt in regional integration within Asia has been a subject of much discussion. They include a combination of political, strategic, and economic reasons, such as the desire on the part of the Asian economies to avoid marginalisation and competitive regionalism, the desire to capitalise on being a hub of overlapping PTAs and thus improve their bargaining power, and to reduce their dependence on the United States economy and downturns in its business cycle.

Table 1: Concluded Bilateral and Plurilateral Trade Agreements

	Africa[b]	Americas	East and South Asia	Oceania	Europe	Former Soviet Union	Mideast[b]	World
XXth Century	**52**	**111**	**17**	**8**	**156**	**95**	**54**	**374**
1913-54	4	2	0	0	3	0	1	10
1955-74	19	16	3	3	29	1	9	57
1975-89	14	45	7	4	21	1	12	78
1990-99	15	48	7	1	103	93	32	229
XXIst Century								
2000-07	24	55	37	6	76	24	38	185
Memorandum								
Total	76	166	54	14	232	119	92	559

Source: Hufbauer and Schott (2007)

India has been no exception to this trend within Asia. In recent years, India has significantly expanded its bilateral trade and investment relations with a growing number of Asian countries by initiating free trade, preferential trade, and economic cooperation agreements with them. Within Asia, India has been involved in negotiations of bilateral free trade agreements with Nepal, Bhutan, Bangladesh, Afghanistan, Sri Lanka, Thailand, Malaysia, Myanmar, Singapore, China, Korea and Japan.[5] It is also a member of BIMSTEC[6] while negotiations to draft a bilateral FTA are currently underway with the Association of Southeast Asian Nations (ASEAN).[7] India is also pursuing the idea of a pan-Asian level economic cooperation initiative known as the Asian Economic Community (AEC).

The shift in India's global economic and strategic relations towards the Asian region is a result of its "Look East" policy, which was initiated in 1991. It was at this time that India also launched its economic reform and liberalisation programme. The LEP had the explicit goal of deepening India's economic and political linkages with Asian countries and forging a mutually beneficial economic partnership within the Asian region. Statements by successive Indian leaders to this effect underscore this objective and shift in thinking. Since then,

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5 The stated agreements include both that have been signed and are being negotiated.

6 Bay of Bengal Initiative for Multi-Sectoral and Technical Cooperation (BIMSTEC) – This covers Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.

7 ASEAN includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

bilateral relations between India and other Asian countries, in particular with developing Asia, have expanded rapidly. India's trade share with developing Asia doubled from 12 percent to 24 percent between 1987 and 2004, compared to its trade share with another major regional trading partner, the European Union, which declined from 30 percent to 20 percent over the same period. India's total trade with developing Asia was estimated at US$45 billion in 2004-05 and over the past decade, its average growth in merchandise trade with developing Asia has been higher than for all other regions, including major markets such as the European Union and North America.[8]

This chapter examines the reasons underlying India's growing interest in framing various kinds of regional and bilateral agreements with the Asian economies. Section 2 discusses the various possible explanations for India's "Look East" policy as well the reciprocation of this interest by its Asian partners. Thus, the possible reasons are examined from the Indian as well as Asian perspectives, and also from the larger regional and geo-political perspective. Section 3 goes on to examine the nature and outcome of India's PTAs. It assesses the extent to which India has been able to realise its interests under these agreements and the tradeoffs that have been involved in the negotiating process. Section 4 concludes by looking at the prospects for future PTAs by India and the various issues and interests that should shape India's future regional initiatives so as to assure the realisation of its long term economic, strategic, and geo-political objectives.

2. India's PTAs – Motivating Factors

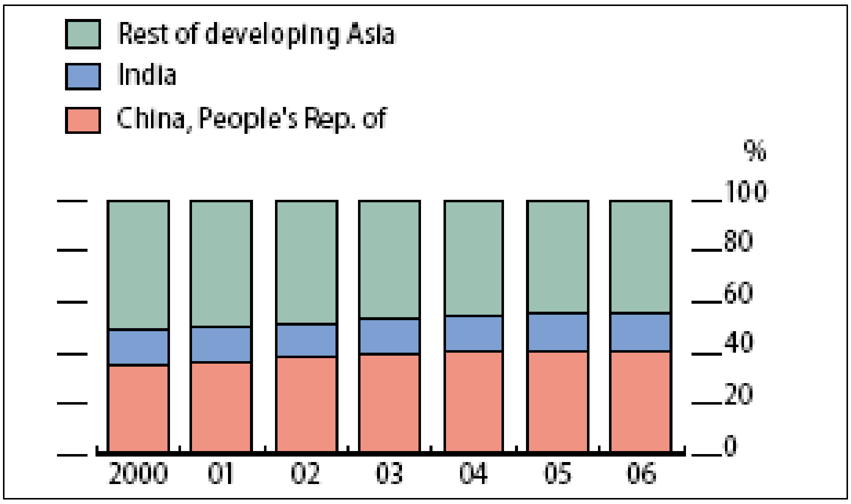
India's growing number of initiatives to strengthen its economic relations with the Asian economies is due to a combination of factors. These could be understood from various perspectives. From the Asian perspective, this could be explained in terms of the growing importance of India to the Asian economies in the latter's pursuit of diversified export markets, continued growth and macroeconomic stability, and possibly efforts to counterbalance the regional dominance of China. From the Indian perspective, this could be explained in terms of the growing importance of Asia for India's pursuit of a regional export market, for strengthening its dominance in services exports within the region, and to seek regional sources of investment, among other objectives. The following discussion examines each of these explanations.

2.1 India's Growing Importance in Asia

The post Cold War era saw India embark on the journey of economic reforms. The severe Balance of Payments (BoP) crisis of 1991 prompted India to shift its economic strategy, from that of a closed economy to a more outward-oriented market-driven economy. Since the initiation of reforms, India's growth has attained a higher trajectory with the economy registering close to double digit growth rates. India's domestic market has attracted growing attention as an investment and export destination given its huge consumer base and growing middle class. For example, in 2006, India accounted for 11 percent of incremental global GDP in purchasing power parity terms, second only to China, which accounted for about 30 percent of incremental global GDP in PPP terms. It is estimated that India and China, together, accounted for 55.3 percent of total GDP (not in PPP terms) in developing Asia and thus exert a powerful influence on regional trends. Figure 1 shows the significance of India and China in the growth performance within developing Asia.

[8] Asher (2007).

Figure 1: Weights in regional aggregate



Source: World Bank, World Development Indicators online database

High growth rates in India as well as China are important for growth in the rest of the Asian region to mitigate the adverse effects of a slowdown in the United States economy for the buoyancy of the region's exports to the United States market. What makes the Indian economy (as well as the Chinese economy) important for the Asian region is that its growth is largely driven by domestic forces such as rising consumption and domestic investment, favourable demographics, growing affluence, and long term favourable growth prospects. These domestic stimuli are likely to temper the possible adverse effects of a slowdown in external demand in major markets such as the United States. Such a conscious diversification by the Asian economies towards new markets like India is also a fall out of the 1997 East Asian financial crisis, following which there was a concerted effort by countries in this region to forge ties that would enable macroeconomic stability and sustained growth and diversify their dependence on a few economies. Overall, given the internal dynamics of the Indian economy, the Asian economies can no longer afford to ignore it in framing their export and investment strategies and thus in their regional integration initiatives.

The potential for expanding economic relations with India is evident from the manifold growth in trade between India and its Asian partners as shown in Table 2.

Table 2: India's Rising Trade with Asian Partners (US$ Billion)

Country	Early 1991	Early 2001	Early 2004	Growth
UAE	1	3.3	7	Seven-fold
China	0.76	5.9	11.5	More than ten-fold
Singapore	0.79	2.2	4.1	Five-fold
South Korea	0.54	1.57	3.1	Six-fold
Indonesia	0.19	1.5	3.1	Sixteen-fold
Malaysia	0.70	1.87	2.88	Four-fold
Thailand	0.31	1	1.4	Four and a half fold
Indonesia	0.19	1.5	3.1	Sixteen-fold
Bangladesh	0.32	1.59	2.2	Nearly seven-fold
Sri Lanka	0.15	0.69	1.51	Ten-fold

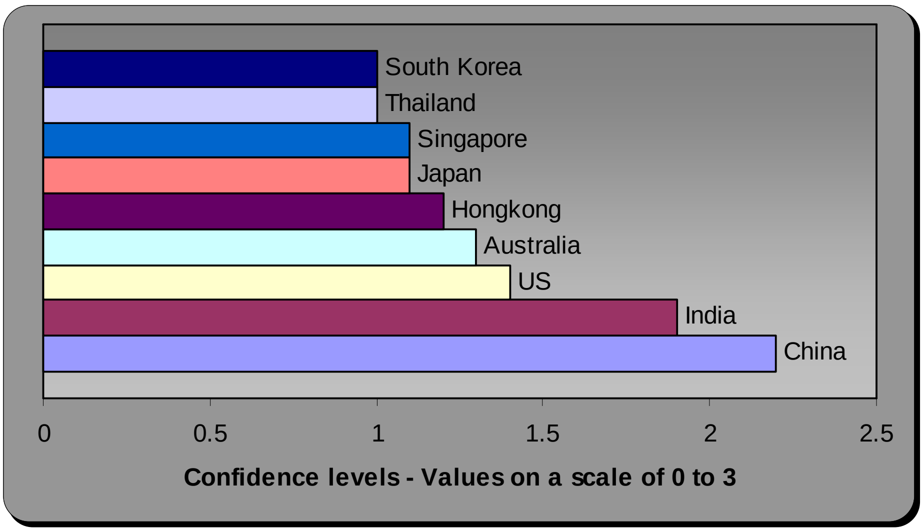
Source: Handbook of statistics, IBEF Research (www.ibef.org)

India's growing importance for other countries in the region also stems from its emergence as one of the leading exporters of commercial services, particularly in information technology and other knowledge intensive and professional services. According to the 2006 WTO rankings, India was the 11th largest exporter of commercial services and the 13th largest importer of commercial services. In 2005, India's share in Asia's total services exports and imports stood at 10.7 percent and 9.1 percent, respectively, underlining India's significance in global commercial services trade within Asia.[9]

From a demographic point of view as well, India is a market that is important for the Asian economies, given its growing working age population to total population ratio as against a declining ratio for other major Asian countries such as China, Korea and Japan. There is potential for demographic complementarity between India and the other ageing Asian countries that could be tapped in future for labour-intensive manufacturing as well as services provision.

On the investment front too, India is a market with considerable potential as an investment destination for other Asian countries. According to an AT Kearney 2006 survey, as shown in Figure 2, India was ranked as the second most favourable destination for global Foreign Direct Investment (FDI) after China, thus indicative of the potential for intra-regional FDI between Asian economies and India. The figures on FDI inflows to India from chief Asian players like Korea, China, Japan and Singapore suggests that these economies have contributed on an average about 35 percent of India's total FDI between 2001 and 2005.[10] At the same time Indian companies continue to invest significantly in Asia, with India's outward investment stock in this region estimated at US$12 billion in 2006.[11]

Figure 2: Comparisons of FDI Confidence Index for Selected Asian Economies



Source: Reproduced from AT Kearney (2006)

9 WTO International Trade Statistics (2006).
10 UNCTAD FDI Database.
11 Asher (2007).

Malaysia and Singapore which have invested millions of dollars in India have a keen interest in ensuring a close and stable relationship with India. Both countries have now extended their cooperation into the field of maritime security (safe sea lanes, especially in the Malacca Strait), indicating their recognition of India's importance for economic as well as strategic reasons.

Thus, the interest on the part of other Asian economies to engage in integration arrangements with India can partly be explained by India's growing significance within the Asian region and recognition of this fact. India is increasingly being seen as an engine of regional growth, along with China. The continued liberalisation of its economy has favourable implications for consumption and investment opportunities in its domestic market. Its large endowment of human resources has the potential to be integrated into the manufacturing value chain of Asian producers and could also supply essential services to the rest of Asia. A quote from a recent interview with the Singapore Prime Minister highlights how, from the Southeast Asian perspective, India fits within the larger regional framework. As stated, "… from Southeast Asia's point of view, to have India engaged as a partner is a tremendous plus. We have good links with China, with Japan. And, now, we will have growing links with India. This means a broader, more balanced, and more comprehensive network of cooperation." Thus, India is clearly a part of the region's expanded integration and balanced regional cooperation strategy.

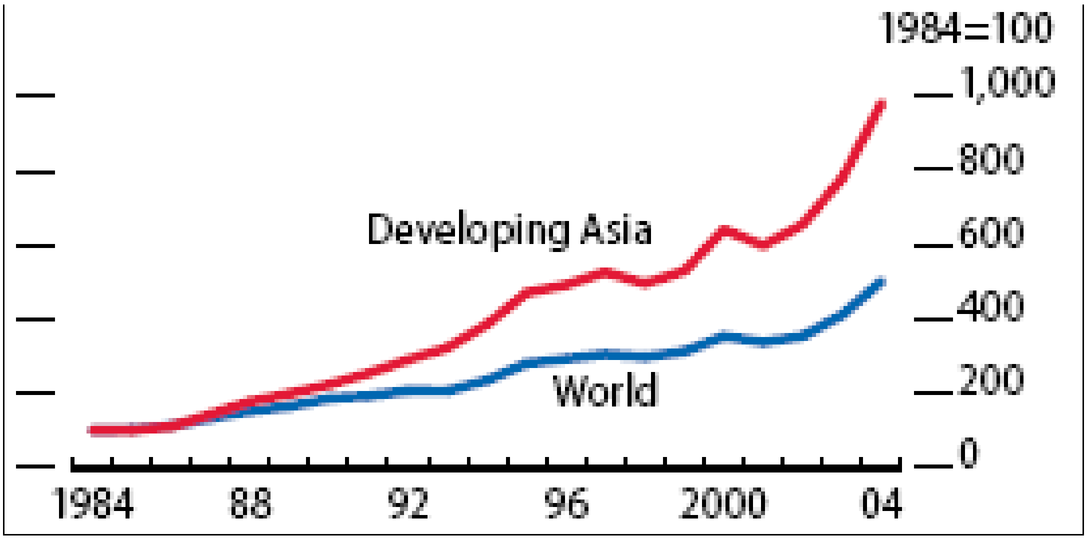
2.2. The Rise of Asia

The pro-active approach taken by India in recent years to enter into regional agreements with other Asian countries is also explained by India's own realisation of this region's growing significance in its trade and investment flows, its growth momentum, and in realising its larger strategic objectives. Just as Asia cannot ignore India, India too cannot ignore Asia.

In the past two decades, the center of gravity of world trade has shifted towards Asia. Asia is projected to grow at 4.9 percent during the 2006-20 period as compared to the 3.5 percent for the world as a whole, with China, India, Pakistan and Vietnam projected to grow most rapidly within Asia.[12] The trade performance of Asia since 1980 has been quite impressive with exports in the region growing ten-fold as against a five-fold growth in world exports. In 2005, Asia had a 21.3 percent share of the world exports. This substantial growth of trade in the Asian region has been fuelled by a steady expansion of trade in East Asia, South Asia and South East Asia.[13] The share of East and South East Asia's exports in world exports rose from 14 percent in 1980 to nearly 27 percent in 2006, while its imports expanded from 15 percent to 24 percent during the same period, with the region as a whole accounting for over one-fifth of total world trade. Thus, from an overall perspective, the Asian region and in particular the East and South East Asian region plays a critical role in world trade and it is thus not surprising that it has become an integral part of India's growth strategy. Figure 3 shows the significance of the Asian region in world exports.

[12] Asher (2007).
[13] Asian Development Outlook, 2006.

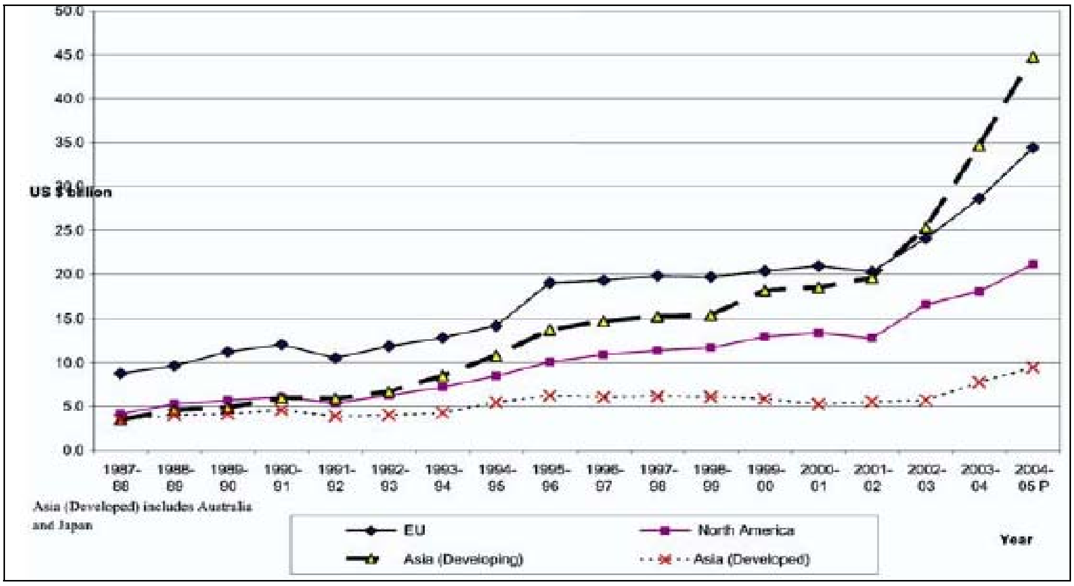
Figure 3: Comparison of Export Indices of Asia and the World



Source: Asian Development Outlook (2006)

The importance of the Asian region for India is clearly highlighted by Figure 4 which shows that between 1987 and 2004, India's merchandise trade has grown most rapidly with the developing Asian countries.

Figure 4: Trends in India's Merchandise Trade by Region 1987-2004

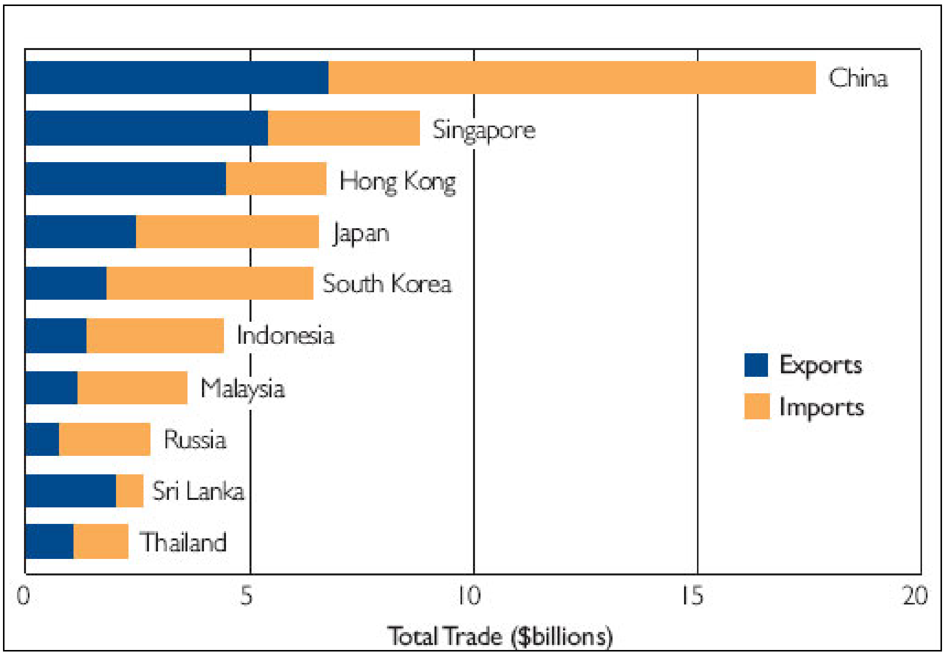


Source: Asher (2007)

The Asian region today accounts for about 50 percent of India's total exports, which is the largest share for any single region in India's exports. India's overall merchandise trade specifically with East Asia more than doubled from about US$13 billion in 1997-98 to about

US$27 billion in 2003-04 at a compound annual growth rate of 13 percent over this period.[14] The key contributing factor was the rapid augmentation of bilateral merchandise trade between India and China, which expanded from about US$1.7 billion in 1997-98 to about US$17 billion in 2005-06. Figure 5 highlights India's key trading partners within Asia. It is interesting to note that India has either entered into agreements with these countries (as in the case of Thailand, Singapore, and Sri Lanka) or is in the process of or contemplating negotiating agreements with them (as in the case of Japan, Korea, and China). Thus, growing trade relations with certain Asian countries and potential for further expansion have certainly been a spur to the regional integration process.

Figure 5: India's Key Trading Partners 2005-06



Source: Curtis (2008)

India's increasing willingness to establish concrete trade links with the East Asian countries is reflected by the volume of trade with ASEAN. India-ASEAN merchandise trade rose from US$9.7 billion in 2002-03 to more than US$30.64 billion in 2006-07. India's merchandise exports to ASEAN have registered a near four-fold growth by increasing from US$3.4 billion in 2001-02 to US$12.56 billion in 2006-07. Similarly India's merchandise imports from ASEAN showed a near five-fold growth by increasing from US$4 billion in 2001-02 to about US$18.8 billion in 2006-07. ASEAN accounted for about 9.5 percent of India's imports and nearly 10 percent of India's exports during 2006-07, up from its share of a mere 1.2 percent and 1.7 percent respectively in 2001-02 highlighting the region's growing significance as an export market for India.[15]

Figure 6 shows the share of North East Asia and ASEAN in India's total exports. As shown, the two sub regions together constituted nearly a quarter of India's exports in 2006-07, more than any other part of the world, including major markets such as the European Union and the United States.

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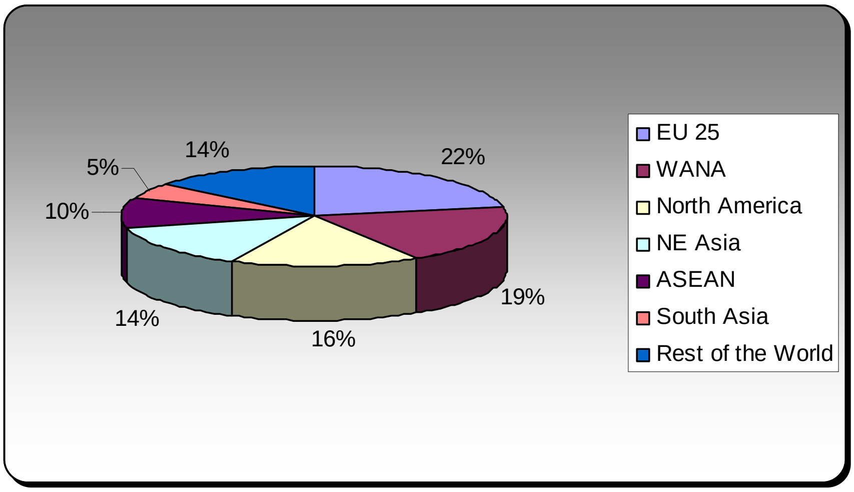
[14] Asher and Sen (2005).
[15] IBEF (2007) www.ibef.org.

Figure 6: Major Destination of India's Exports (April-October) 2006-07



Source: Ministry of Commerce, India

There is also reason to believe that intra-Asian integration itself is spurring India to look at opportunities within the Asian region, so as to use its agreements with selected countries or groupings to further its integration with third countries and with the wider regional market, given the existence of strong investment and trade linkages among countries in this region. For example, intra-Asian trade as a share of the region's total trade rose to over 50 percent in 2004 from about 30 percent in 1980 and has grown at an average annual rate of 15 percent per year over the past five years, much higher than for other regions such as NAFTA and the European Union (five percent and nine percent, respectively).[16] Within East Asia, growth in intra-regional trade has been particularly striking, increasing from about 35 percent in 1980 to about 52 percent in 2006, indicating that more than 50 percent of East Asia's recent trade is with itself. Thus, forging an agreement with one or more countries in this region creates opportunities for penetrating third markets not necessarily covered by agreements with India but for creating hub and spoke opportunities through selected partner countries such as Singapore in the region. For example, when the Indo-Singapore Comprehensive Economic Cooperation Agreement was signed, it was pointed out by experts in the info-technology (IT) industry, that this agreement would provide them the opportunity to tap the wider Asian market by using Singapore as a front office and hub for their Asia-Pacific operations. Given the relatively open trade and FDI regimes in this region, such an approach to furthering regional integration with third markets, becomes all the more understandable.[17]

It is also important to place India's growing trade relations with East and South East Asian countries against the limited progress in expanding trade between India with other South Asian countries in part due to similarities in trade baskets within this region as well as difficulties among major players in according market access to each other. This lack of progress is indicated by the relatively low shares of intra-regional trade in South Asia. In 2005, intra-regional trade in South Asia as a proportion of total trade was only around four percent, barely rising from its earlier share of 3.3 percent in 1980-84, indicative of the various obstacles to expanding trade within South Asia. India has thus needed to look beyond its immediate region and to focus on other markets within Asia, particularly those that have

[16] Lim (2006).
[17] Kawai and Wignaraja (2007).

shown more resilience in their growth dynamics, economies that are outward oriented, and economies that can address some of India's long term strategic interests.

2.3 Counterbalancing China's Economic Influence

There is also reason to believe that India's "Look East" policy is in part motivated by a fear of marginalisation, that is, a concern that if it does not participate more actively in PTAs with other Asian countries, then it may be left behind by its neighbours. In particular, India's bilateral and regional integration attempts with Asian partners could be seen as a strategic move to counterbalance the growing influence of China in Asia. Since China's accession to the WTO in 2001, the country has shown growing interest in deepening its economic links within Asia by negotiating bilateral FTAs in the region and has accelerated its process of negotiating PTAs.[18] There is some concern that if India does not proactively initiate PTAs to match the initiatives by China, then it could suffer from trade and investment diversion and a deterioration in its terms of trade. To quote one study, "PTAs are like street gangs: You may not like them, but if they are in your neighborhood, it is safer to be in one."[19] Thus India's PTA initiatives could be seen as a form of competitive regionalism for fear of being left out of the wider Asian economic integration process.

It is an established fact that China has emerged as a pivotal growth force in Asia. More than 50 percent of China's total trade is with Asia today. China has 9 bilateral FTAs on record and is considering negotiations with about 30 other countries.[20] Its initial FTA initiatives were with Hong Kong and Macao, followed by framework agreements with all the ASEAN countries. In the Asia-Pacific region, it has full-fledged FTAs with Chile, a mini-FTA with Thailand[21] and negotiations are underway with Australia, New Zealand, Pakistan, India and Japan. It is interesting to note that India's PTA initiatives in the Asian region are with almost the same set of countries, and thus there may be competitive regionalism forces at play, which may imply that there is some "China dimension" to India's regional efforts and that there are defensive sentiments underlying India's initiatives. According to a recent report, "India's geopolitical location – as a quasi-island on a sub-continent – is to India's strategic disadvantage, given the ASEAN institutional setting. India is at the periphery, not the centre, of the ASEAN region" and perhaps this could explain its conscious "Look East" policy to overcome this geographic disadvantage. This report goes on to say that India's immediate interests from this association is to gain access to the multilateral forums of ASEAN and Asia Europe Meeting (ASEM) and to discuss issues of maritime security for the sea lanes at the bottlenecks of the Indian Ocean.

But there may be another side to this counterbalancing argument. It may not just be India that is seeking to counterbalance China's growing role within Asia, especially in the context of its relations with ASEAN. From the ASEAN perspective too there may be counterbalancing arguments at work which may explain the bloc's willingness to forge an agreement with India. This concern is understood by looking at bilateral trade trends between ASEAN and China. Bilateral merchandise trade between ASEAN-5 [22] and China has grown considerably, reaching US$105.9 billion in 2004. In 2005, ASEAN ranked as China's fourth largest trading partner. While ASEAN's exports to China have grown rapidly, it is China that has

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18 Hufbauer and Schott (2007).
19 As taken from Rajan and Sen (2004).
20 Gibbs and Wagle (2005).
21 It is a mini-FTA because it is essentially a preferential sectoral deal on some agricultural products.
22 ASEAN-5 consists of Malaysia, Indonesia, Philippines, Singapore and Thailand.

experienced more rapid penetration of the ASEAN market and maintained a favourable trade balance with ASEAN. Notwithstanding the many potential benefits of a full-fledged FTA with China, the ASEAN economies are concerned about the intense competitive pressures that such an FTA would bring from Chinese manufacturers given similarities in resource endowments and production structures. Recent reports indicate that earlier patterns of investments wherein FDI was re-routed from ASEAN countries to China for intermediate input production which was then imported for further value addition in the ASEAN countries and final exports to Japan or the United States may be changing with investors directly locating their investments and doing their value addition in China for direct final exports to Japan, the United States, and other markets. There is thus some concern that an FTA with China could be at the expense of the ASEAN countries. India provides an alternative market to China for the ASEAN countries, not only as an export destination but also for sourcing intermediates and locating investments.[23] It has been pointed out that ASEAN members see themselves as the "flying geese", with China on one wing and India on the other, to attain a proper balance in the region. It is of course another matter whether India can actually capitalise on these concerns and asymmetries in the China-ASEAN FTA and elevate its economic and strategic position in Asia as a counterbalancing force to China.

2.4. Geo-Political Considerations

With all due importance to the various trade and commercial interests that have driven India to enter into several PTAs in Asia, it is an undeniable fact that many geo-political considerations have also contributed in a significant manner to this process. As explained in the previous section, China's emergence as a formidable economic power in Asia may in part have triggered India to follow suit in order to ensure, to some measure, its own political and economic clout in Asia to counterbalance that of China. (Recent attempts by the Indian government to sign a nuclear deal with the United States can also be viewed as a strategic move to balance China in Asia).

Several other instances reveal that India has forged alliances with its neighbouring countries placing strategic considerations on top. It is to be understood that the essential premise of India's LEP is based on its priority of developing strategic ties with East and South East Asian nations. This is evident from the following observation in one of the studies - "The LEP is in a way a landmark shift in India's geo-strategic perceptions because in terms of strategic geography, the contiguous sea spaces of the Bay of Bengal-South China Sea could be regarded as hubs of geo-economic and strategic opportunities for India. India's maritime shipping, naval forward presence of joint operations and interoperability with South East Asian navies have been the planks of India's engagement with South East Asia. The nucleus of the LEP is essentially built on the contiguity of diplomatic, economic and security factors – primarily maritime factor that fosters the ability to network and synergies the diplomatic and economic potentials of the policy."[24]

Yet another key motivation for the LEP, as cited by experts, was to address certain specific domestic considerations like developing India's North-Eastern region and curbing insurgent activities along the border with Myanmar. Since Myanmar constitutes a land bridge between South and South East Asia it becomes important for India to maintain cordial political and economic relations with that country keeping in mind the potential and prospective geo-

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23 Such a possibility was proposed in the Ricardian theory of Comparative Advantage.
24 Sakhuja (2006).

political advantages that could arise as a result. India's desperate attempts to befriend the military Junta in Myanmar and its active involvement in facilitating the formation of BIMSTEC have been seen as strategic moves to counter China's increasing influence in Myanmar.[25]

BIMSTEC is the first ever regional arrangement that was formed by members of the SAARC and two ASEAN member states. It exemplifies the recognition of 'naturally contiguous areas for development through collective plans.' The significance of this sub-regional arrangement arises from the fact that it envisages sub-regional co-operation in six areas, namely trade and investment, technology, transportation and communication, energy, tourism and fisheries wherein each member country is entrusted with the responsibility of coordinating a specific area of regional cooperation. Thus attempts to achieve strategic ends through increased economic cooperation in trade and investment is the hallmark of India's approach under this agreement.

Apart from India's leading initiative to form BIMSTEC, India had also floated the Mekong-Ganga Cooperation (MGC) Forum in 2000 whose major thrust was to undertake economic development in the Mekong region comprising of India, Myanmar, Vietnam, Laos, Kampuchea and Thailand by developing their transport, communication and infrastructure facilities along with promoting tourism, culture and education in the region. MGC offers immense scope for India to develop its North Eastern states by establishing connectivity with the Mekong countries. In light of this, India signed the landmark project in 2002 that would connect India by road to Thailand through Myanmar. This trilateral highway transport corridor is expected to be a potential gateway to access the East Asian markets. The project could significantly increase external connectivity to India's North East and could eventually provide the country access to the South China Sea. The 1400 kilometre corridor that is supposed to run through Myanmar linking India and Thailand would bring substance and synergy to India's LEP. India has also been assisting Myanmar to augment its railway infrastructure needs by supplying rail stocks, so as to realise the potential gains out of the Trans-Asian railway line connecting New Delhi and Hanoi as a part of the MGC.[26]

India's recent attempt to strike a bilateral FTA with Japan also falls in line with the list of other initiatives that have been spurred by strategic interests. While Japan's energy security and trade flows are heavily dependent on secure routes through the Indian Ocean, India would need Japan's support for lifting international restrictions on civil nuclear trade with India. Hence there are possibilities for mutual gains for both countries if a strategic partnership between India and Japan is struck in the near future.

There is also an underlying concern about China's political and diplomatic influence in the region and the need to counteract this through India's own initiatives. For instance, it has been pointed out by many experts that China's regional agreements in the Asia-Pacific go beyond economic objectives. Often an underlying objective is to build stronger political and diplomatic relations with the rest of Asia and to establish leadership credentials in the region.[27] India's own efforts to forge ties with very similar countries could be seen as a move to establish its own political and diplomatic clout and to circumvent China's dominance in the region.

[25] For a detailed analysis, see Batabyal (2006).
[26] Ibid.
[27] Sally (2006).

3. Assessment of India's PTAs

It is also worth examining the extent to which the PTAs entered into by India have been able to address the objective of using regionalism as a means to spur competitiveness and further the process of India's integration with the world market. How balanced have these agreements been? What has been the thinking underlying the framing of these agreements? Has India been defensive or forward looking? The following discussion examines a few of India's PTAs to see whether longer term economic objectives of improving competitiveness and efficiency have been kept in mind. It is worth noting that the assessment undertaken here is not based on how effectively India has been able to defend protectionist interests of certain producer lobbies and sectoral groups, that is, the usual analysis based on a quid pro quo approach of concessions and tradeoffs involved in such arrangements, but instead on the how regionalism has been used as a tool for furthering the process of trade and investment liberalisation.

The basic framework for assessing PTAs comes from the international trade literature, and the widely used concepts of trade creation and trade diversion. Trade creation occurs, with the formation of a PTA, when a country imports from the other the goods which it was previously producing at home. Trade diversion occurs when a country party to a RTA switches its imports from an efficient producer of certain goods to a less efficient one because of the incentive distortions created by tariff differentials due to the RTA. Theory regards such effects as welfare-reducing. According to theory, the net welfare result is obtained by weighing the positive aspects of trade creation against the negative aspects of trade diversion. Although there is no conclusive evidence on the welfare implications of PTAs, there are several empirical studies, including Computable General Equilibrium (CGE) models that attempt to estimate the welfare effects of PTAs for selected regions. For the JACIK countries,[28] Mohanty et al (2004) use the CGE model to assess the welfare effects of trade liberalisation and labour and capital mobility. Their results indicate that there could be regional welfare gains of over US$200 billion, or more than three percent of the GNP of this region. Further simulation estimates show that the formation of a RTA among JACIK countries would increase their GNP by around US$147.4 billion and that greater liberalisation of investment would further enhance economic welfare to the extent of US$153.2 billion. Hence this study concludes that regional economic integration in Asia would be a win-win proposition with all participating countries realising significant welfare gains.

However, such estimates remain largely hypothetical, based on simulated constructs regarding the nature and scope of liberalisation and not really making a distinction between the liberalisation that is agreed to in principle and the liberalisation that takes place in practice. It is also well known that numerous non tariff and regulatory barriers and lack of progress in critical areas such as trade facilitation and infrastructure may continue to impede the realisation of potential gains. Thus, while taking note of such potential macro level gains, an examination of the specifics of what are covered under some of India's agreements and the approach taken to liberalisation by India under its PTAs, is warranted for getting a realistic picture of the outcomes and tradeoffs.

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[28] Japan, ASEAN, China, India and Korea form the JACIK set of economies.

3.1. Trade in goods

A central characteristic of all bilateral or regional free trade agreements, as far as trade in goods is concerned, is that they are formulated either with a "positive list" approach, wherein each participating country lists the individual commodities for which it would sanction preferences to the other partner, or through a "negative list" approach whereby each country would grant concessions and preferences to all the commodities except for the ones mentioned in its own negative list. Usually the products that are included in such a negative list would be regarded as sensitive items that would need to be protected in the interests of the nation. The composition of this list is quite crucial for the progress of any bilateral FTA as all the products that do not find a place in this list would qualify for the duty concessions applied under the FTA. Such duty concessions are considered to be the basis for promoting mutually beneficial international trade in goods among the concerned countries. Most PTAs in recent years have taken the latter approach, with a huge list of items figuring in the negative list. Though theoretically such lists hinder the effectiveness of the RTA as they limit the scope of liberalisation, they are seen as an inevitable outcome of lobbying pressures by domestic industry. Another defining feature of PTAs has been the Rules of Origin (ROOs), which establish whether a listed good is genuinely eligible for the preferential reduction by confirming the originating status of the good and ensuring that there is no re-routing or transshipment from third countries outside the agreement. Progress in many PTAs has been hurt by disputes over ROOs and lack of clarity in their application.

India's agreements have been characterised by problems regarding negative lists and rules of origin. One common problem has been the size of the negative list and the extent to which products of export interest to the partner countries are covered, i.e., the scope for trade creation under the agreement.[29] For example, under the ISLFTA, items in Sri Lanka's negative list represent more than one-third of India's total exports to Sri Lanka. Of the 1,351 items that were initially granted 100 percent duty concessions by India to Sri Lanka, only 68 items were of export interest to Sri Lanka and these were further subject to para-tariff and Non Tariff Barriers (NTBs), thus overriding the preferential margins granted under the FTA.[30]

Likewise, India's ongoing negotiations with the ASEAN have run into problems over India's long negative list. India started negotiations with around 1400 items on its negative list. Although India has progressively reduced this list progressively after a series of negotiations, earlier to some 800 items and more recently to about 490 items, it remains reluctant to lower duties on certain products which are of major export interest to ASEAN. Negotiations remain bogged down over ASEAN's demand from India to bring down customs duties on crude palm oil to 40 percent and on refined palm oil, tea, coffee, and pepper to 30 percent and to allow preferential treatment for those major products which constitute around 80 percent of ASEAN's export interests to India.[31] It is interesting to note that products such as tea, coffee, black pepper, and textiles which have figured in India's negative lists under various agreements represent industries that are characterised by low productivity, inefficiencies, insufficient investments in infrastructure, and lack of technological innovation, as pointed out in various studies and also evident from recent performance in these sectors. Thus, India's approach to the negotiations has been marked by defensive interests in a bid to protect domestic producers in sectors that are less efficient and which fear competition from ASEAN

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[29] Sri Lankan negative list had 1180 items while the Indian list had 196 items.

[30] Port charges are an example of a para-tariff barrier; Discriminatory sales tax is an example of a NTB.

[31] http://www.bilaterals.org/article.php3?id_article=9605.

under an FTA. From a purely economic perspective, such an approach clearly limits the scope for trade creation as well as the potential for using such an agreement to stimulate Indian industry to become more competitive over time. There has been no clear roadmap for using the transition periods to strengthen these sectors.

The case of black pepper provides another interesting example. India, despite being the third largest producer of black pepper in the world, has been experiencing a severe fall in its export levels of this product. While growing domestic consumption partly explains this fall in exports, another major reason has been the growing competition faced by Indian exporters in the international market, in particular from markets such as Vietnam, Indonesia and Malaysia, which unlike India have been able to withstand falling international prices. India has not been able to compete effectively in the international market because of its inability to increase yields per hectare in black pepper production, mainly due to inefficiencies in the use of inputs.

Likewise, ASEAN's demands to India to reduce its custom duties on black pepper and India's persistent rejection of this request are similarly indicative of India's protectionist approach to the negotiations on various agricultural products where India lags behind its ASEAN partners. Although it may be justified in shielding such sectors from external competition in the short or medium term so as to give them some time to become more efficient and face liberalisation challenges in future, in the absence of policy roadmaps to improve capacity and efficiency in this sector, one can question whether such protectionist measures would really stimulate competitiveness or only serve to shield inefficiencies for perpetuity.

Such questions on the motives and sentiments underlying India's approach to the negotiations can also be raised in the context of many other products that feature in India's negative lists. While it is expected that the tariff barriers on most of the sensitive products appearing in the negative lists would be eventually phased out and that these industries would use the transition period to raise their efficiency levels, the large number of items placed on these lists and the long transition periods envisaged for some sensitive products cast doubt on the realisation of such efficiency gains by the protected industry or sector. It is well known that ASEAN members have openly criticised India for its protectionist attempts against imports from Southeast Asia. The imbalance in tariff levels between ASEAN and India has slowed down the negotiations on the implementation of the Free Trade Area, set to come into effect in 2011.

Evidence also suggests that trade creation has been circumscribed by stringent rules of origin under the ISLFTA. Cases in point include Sri Lankan exports of readymade garments and tea to India, where there has been gross underutilisation of the quota granted by India to Sri Lanka for these products under the FTA. In the case of readymade garments, India's duty concessions are subject to a quota of eight million pieces of exports from Sri Lanka, with a condition that at least 6 million pieces are manufactured using Indian fabric as inputs. The latter condition has made the production process costlier in Sri Lanka than in India, in turn adversely affecting Sri Lanka's ability to penetrate the Indian market and benefit from the FTA. A similar scenario confronts Sri Lanka's tea exporters as the ROO require a 35 percent local value addition for blended tea and a 25 percent local value addition for blended tea with

Indian tea. As a result, less than one percent of Ceylon tea enters the Indian market, amounting to a mere 2.7 percent utilisation of Sri Lanka's quota limit under the FTA. [32]

There have also been unexpected outcomes in some Indian industries. For example, Indian vanaspati manufacturers have been hurt by growing import competition from Sri Lanka. Vanaspati oil is refined from palm oil inputs that are imported from East Asia under duty free concessions into Sri Lanka but are subject to a heavy 80 percent duty rate in the case of India. Since the FTA grants duty free access to Sri Lankan exports of vanaspati oil in the Indian market, many Indian manufacturers have relocated their refineries to Sri Lanka to benefit from Sri Lanka's lower duties on palm oil inputs and also capitalise on duty privileges granted to vanaspati exports under the FTA. This has resulted in a surge in exports of vanaspati oil to India, further compounding problems already faced by Indian domestic industry due to duty free imports of the product from Nepal, Bangladesh and Bhutan. Indian industry contends that such import competition has led to the closure of around 120 to 260 vanaspati manufacturing units and that the weak specification of what constitutes value addition under the ROO, in particular, the scope for inflating labour content in the product to satisfy the value addition criterion rather than some minimum local raw material content requirement, is the source of this problem. [33] But there is an alternate way of understanding this adverse impact on local industry. The root problem here has been the failure on India's part to align its tariff on palm oil with that of Sri Lanka, and thus ultimately its failure to address inefficiencies in the domestic sector. It is this misalignment and high level of protection in India that has incentivised the relocation of production from India to Sri Lanka in the first place. Thus, this particular example suggests that if India is to move ahead in its PTA efforts, to avoid such undesirable outcomes for its own industry, it must reduce anomalies in its tariff rates with partner countries, thus using such agreements to accelerate the liberalisation process and supplement this liberalisation with domestic reforms and capacity building measures.

3.2. Trade in Services

India's PTAs also need to be assessed in terms of their ability to address India's growing interests in the service sector. India has been a keen negotiator in the services sector under the WTO and even in a regional and bilateral context this constitutes a major area of interest for India, with possibilities for a win-win outcome. The service sector provides immense scope for cooperation between India and other Asian countries. To some extent there has been progress in pushing India's services agenda, such as under the India-Singapore Comprehensive Economic Cooperation Agreement (CECA) and under the Comprehensive Economic Partnership Agreement (CEPA) with Sri Lanka.[34]

The CECA with Singapore is perhaps the most noteworthy for illustrating some progress in realising India's interests in the service sector. Under the CECA, both countries have made commitments on a wide range of sectors. India has made partial or unrestricted market access commitments in telecommunications, financial, air transport, tourism, architecture, engineering, health, and management consulting services among others while Singapore has done the same in legal consultancy, market research, retail trading, education, environment,

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[32] For a detailed analysis, see Kelegama and Mukherji (2007).

[33] Ibid.

[34] In the case of ISLFTA, both India and Sri Lanka have managed to address some of the key issues regarding the liberalisation of transport, tourism, and financial services and are working towards a CEPA which includes services.

and health services among others. More importantly, the CECA recognises India's interests in exports of professional services, particularly in the IT sector and extends favourable treatment to the movement of IT and other professionals from India to Singapore, and covers the related issue of mutual recognition of qualifications to facilitate bilateral labour mobility. The latter are issues which India has pushed in the multilateral negotiations with little progress and thus the accommodation of these interests in the CECA is an important step for India.

Likewise, in the area of financial services, both India and Singapore have made substantial commitments in financial services, going beyond what they have offered multilaterally. India has granted permission to the Government of Singapore Investment Corporation to own as much as 20 percent holdings in Indian companies compared to the 10 percent permitted by SEBI, and also committed to providing greater operational freedom to three Singapore banks in the Indian market, according them national treatment status with regard to opening of branches, operational locations, and prudential requirements, thus going beyond its multilateral offer in financial services. Singapore has reciprocated this gesture by granting full banking status to the Indian banks operating in Singapore and has allowed ICICI bank specifically to use local Automatic Teller Machines and transfer money electronically. It has also reduced the withholding tax on royalties and fees for technical services from 15 percent to 10 percent which is expected to benefit Indian companies providing services to Singapore. Although there have been subsequent difficulties with the implementation of these commitments, both countries have clearly been forthcoming to liberalise their respective financial services sectors and to derive mutual benefit from such liberalisation.

Notwithstanding the progress in pushing some of India's services interests in the CECA, one could argue that by and large, services have not got the kind of attention and pro-active interest that they deserve in India's PTA initiatives. In several important initiatives, discussions on services have been held back by differences between India and its partners over merchandise trade, in particular over issues such as the negative list, rules of origin, and non tariff barriers. This is because India's PTAs have largely followed the traditional pattern of negotiations, with issues relating to trade in goods dominating and even holding hostage the discussions relating to trade in services, despite the growing contribution of services to India's economy and its exports and the growing significance of services to India's liberalisation strategy. The outcome in services has somehow become linked to the pace and outcome of negotiations in other areas where India often has less to gain and where India's defensive interests tend to dominate, as highlighted earlier when discussing the case of goods. Thus, India has not done enough to de-link discussions on services from other parts of its PTA negotiations, even though such de-linking would be in its own interests.

A case in point is India's ongoing negotiations with ASEAN. It is highly unlikely that India's interests in the service sector in the context of the India-ASEAN negotiations will be addressed anytime soon till the issues concerning the ROO and negative list are sorted out. And yet, the possibilities for mutually beneficial outcomes are substantial in the service sector, including in areas such as Information and Communication Technology and related services, tourism, and transport services. A few examples illustrate the potential that exists in the service sector for a win-win outcome and why India needs to press its services interests more pro-actively and independently from the pace of negotiations in goods and on other sticky issues.

Information & Communication Technology (ICT) and related services is one potential area for cooperation between India and Southeast and East Asian countries. In recent years, the ICT sector has been the key driver behind India's growth in services. Increasing international demand for competitive and skilled manpower has contributed significantly to the growth of this sector. India has also emerged as the hub of outsourcing services that include back office operations like business processes outsourcing. Though India has established itself as a globally competitive supplier of ICT services, its business with the Asian region is still a small share of its overall outsourcing revenues at less than 10 percent, indicating the potential that remains to be tapped in this region. There is scope for multinationals from this region, in particular from Japan and Korea, to offshore more of their services to India. Similarly, the Indian hardware industry could benefit from cooperation with ASEAN economies which have developed capabilities and expertise in the telecom and hardware industries. These issues have to be kept in mind in India's negotiations with ASEAN as well as with Korea and Japan, and commitments need to be made accordingly.

There is similarly considerable scope for synergy between India and other neighbouring countries is tourism services. There has been some cooperation between India and ASEAN in this sector. India has offered to open up air travel for ASEAN carriers and has permitted them to fly to 21 tourist destinations in India directly. Also, ASEAN air carriers can fly to 4 metros in India without any limit during the busy tourist months. This has led to greater connectivity between India and the ASEAN. As noted by Asher and Rajan (2004), amongst the ASEAN economies, Indonesia, Malaysia, Philippines and Singapore have already established themselves as leading tourist destinations. Since India is ranked among the tenth largest source country for visitors to ASEAN, the latter has considerable interest in collaborating with India in this sector. Improved air connectivity between India and ASEAN is expected to facilitate business and tourist flows and lower prices for consumers. However, to date, India has not done enough to leverage the potential for expanding tourism into India from the ASEAN region. The number of visitors from ASEAN into India is quite small compared to the number of Indian tourists going to ASEAN countries. Thus if India is to really benefit in this area from its PTA with ASEAN, it must support its liberalisation commitments in air transport services with supporting capacity building and other measures to strengthen its tourism sector and improve its competitiveness in this area. Hence, India must use its PTAs not only to spur the opening up of services that are in its own interest, but also to spur domestic reforms and introduction of supporting regulations to capitalise on the opportunities created by its PTAs, in the same way that it would need to in the multilateral context.

Overall, the few examples highlighted here indicate the win-win possibilities for India in the services sector and the presence of mutual interest. But as noted earlier, due to the modalities of the negotiations where services are given lesser importance than goods and because of India's inability to put in place the larger supporting environment to complement liberalisation initiatives in many services, it may not be able to realise the potential benefits. India may need to push its services negotiations on a faster track than it has done so far and also better align its commitments in services with its domestic reform strategies.

3.3. Investment Issues

Another area that is becoming increasingly important in all PTAs is that of investment. Well designed PTAs are expected to provide appropriate incentives to stimulate investment. India's PTA initiatives with its neighbouring countries involve various investment promotion provisions. The question to be asked is whether they adequately address India's investment interests. There is ground to believe that there is growing recognition on India's part regarding the need to use PTAs to facilitate and promote investments and to take care of related issues such as taxes.

The CECA with Singapore serves as a concrete example. Singapore has been an important source of FDI for India. In light of the significant investments that could potentially flow from Singapore, the CECA assumes immense importance for India. Most of these investments are expected to serve India's infrastructure requirements and for scaling up the efficiency of its manufacturing sector. In an effort to attract more investments, India has granted pre-establishment national treatment status to manufacturing industries in addition to other areas like infrastructure, housing, and township development. Singaporean investments in India have grown at about 60 percent over the past 10 years and the cumulative investment by Singapore in India is expected to rise from US$3 billion to US$5 billion by 2010 and further to US$10 billion by 2015, the bulk of it being directed to infrastructure development in airports, ports, building and urban infrastructure. But the CECA also assumes importance for India in light of the growing outward investment flows from Indian companies to Singapore. By the end of 2005, more than 300 IT companies had set up software development operations in Singapore. Indian IT companies like TCS and Satyam have made Singapore their Asia Pacific hub. Singapore's ECS Holdings Ltd has planned to enter the Indian IT sector through a local partner. In areas such as education and health, Singapore has joint ventures present in India. There are around 1500 Indian companies based in Singapore, and on average approximately 150 Indian companies set up base in Singapore every year. Indian firms now make up the fourth largest business community in Singapore. Thus, the CECA provisions on investment have implications for two-way FDI flows between India and Singapore.

An examination of the CECA investment provisions suggest that such interests have largely been accommodated and that this PTA could help promote bilateral investment flows. For instance, the CECA comprises of comprehensive investment provisions such as double taxation avoidance agreement that provide secure investment protection for investors from both countries. They allow investors of both countries to freely transfer funds related to their investments, such as capital, profits, dividends and royalties. Low capital gains taxes permit investors to minimise taxes on account of sale of shares or capital assets. Similarly lower withholding taxes facilitate the easy transferring of royalties and profits without any withholding of money. Since the foreign dividend income of Indian businesses are being taxed at a higher rate in India, Indian entrepreneurs could thus explore tax saving jurisdictions such as Singapore to locate their companies in Singapore and take advantage of the investment incentives provided under the CECA. Singapore would provide an ideal location for routing investments through holding companies given its double taxation avoidance treaties with a large number of countries. Such incentives, many of which were previously available only to Mauritius, are likely to boost bilateral investment ties between India and Singapore. The CECA provisions also open possibilities for Indian companies to use Singapore as a route to penetrate third country markets with which Singapore has signed FTAs. Though compliant denial clauses are necessary to make sure that services suppliers of a non-contracting party like India do not benefit from liberalisation by contracting parties in another agreement, such as under the Singapore-United States FTA, given Singapore's liberal investment environment, there is scope for Indian companies to register in Singapore to gain access to developed country markets.

The CECA could also serve as a platform for India to expand its investment ties with other ASEAN economies, as only Singapore and Malaysia have thus far stood out among the ASEAN members as major investors in India. There is scope to boost investment flows from some ASEAN countries into areas such as energy, oil and gas exploration, transport, and logistics. Indian investments in ASEAN too remain limited though many Indian companies representing sectors such as ICT services, automobiles, engineering and pharmaceuticals have plans to invest and expand their operations in countries like Thailand, Indonesia and Philippines. Hence the scope for Indian investments in ASEAN and ASEAN's investments in India remain untapped and that any negotiations with ASEAN must keep investment synergies and objectives clearly in the picture.

It is also worth noting that traditionally India has been entering into Bilateral Investment Promotion and Protection Agreements (BIPPAs) with several countries in order to address investment liberalisation issues. The purpose of BIPPAs is to create favourable conditions for bilateral investment relations. However, investment provisions that have been drafted in India's PTAs tend to go beyond what is covered in its BIPPAs, in terms of offering greater incentives for promotion and protection of foreign investments. Although India does not have a BIPPA with Singapore, its CECA with Singapore contains a comprehensive investment chapter. Similarly, the BIPPA between India and Sri Lanka signed in 1997 is now under review in light of the ongoing CEPA negotiations. Hence, this would suggest that India is seeking to accommodate its investment concerns and interests more comprehensively in its PTAs and would need to ensure that its BIPPAs are in consonance with its PTAs.

4. Looking Ahead: Prospects and Strategies for India's PTAs

Despite being a latecomer to Asia's 'new regionalism', India has established an economic and strategic relationship with several Asian countries by entering into bilateral and regional trading agreements with them. The key contributing factor to this trend, as already discussed, has been India's deliberate pursuit of its "Look East" policy since the end of cold war. In this context, the analysis of India's selected preferential trading agreements in Asia carried out in this chapter shows that the underlying motivation of these initiatives involves a mix of commercial and geo-political considerations. The analysis highlights that there could be four possible factors that motivated India to enter into PTAs with its Asian neighbours.

One possible reason could be the economic rise of India in Asia and the related recognition on the part of other Asian countries of India's importance as an investment and export market, as a supplier of manpower, and as a counterbalance to the growing regional dominance of China. A second explanation could be the growing importance and economic dominance of Asia itself within the world economy and also specifically for India, and thus India's own recognition of the need to cement its ties with these countries. A third explanation is that India has sought to prevent its marginalisation within Asia and to assert its own political and economic influence in the region, particularly to counteract moves by China. And, finally, India's integration initiatives in East and Southeast Asia may very well have been driven by geo-political considerations such as securing its energy interests.

The analysis of the problems that have surfaced in some of India's PTAs and some of the defining characteristics of these PTAs further suggests that the approach has been more defensive and responsive to lobbies and sectoral interests instead of being forward looking and competition oriented. Further, there has been little focus on addressing underlying structural deficiencies in protected and sensitive sectors, indicating the absence of a long term strategy to use these PTAs to raise efficiency levels and productivity in these industries and defeating one of the many useful purposes PTAs can serve. While there has been some progress in addressing India's interests in services under one agreement, namely CECA, with most partners, the negotiations on goods and in particular, the defensive interests in certain have been accorded greater importance at the expense of realising India's offensive interests in many services. The analysis also indicates the need to focus on investment concerns, both into and from India in India's PTAs in view of recent trends in FDI inflows and outflows for India.

Looking ahead, India's PTAs are likely to be guided by a wider canvas of long term interests and concerns. Geo-political and strategic interests which go beyond pure commercial and economic interests are likely to become more and more important for shaping India's future trade and investment cooperation strategies and its choice of partner countries, regions, sectors and issues.

One such issue will be energy security. India's huge energy needs will certainly be an important factor in the framing of its future PTAs, as is already indicated by India's recent efforts in this regard. For instance, India has been involved in a series of negotiations within and outside the Asian region, including the United States, the European Union, Japan, Latin America, Africa, and the Gulf to promote and secure its energy interests. It has recently engaged in active dialogues with energy-rich African nations to effect a cooperation agreement that would ensure affordable access to energy in India and help insulate the Indian economy from the fluctuations in oil prices in the international market. India has sought oil and gas blocks in nations such as Nigeria, Sudan and Egypt to bridge the energy deficit it is facing today. India's proactive efforts to negotiate a bilateral FTA with Japan also assume immense significance in the context of energy cooperation. According to a joint CSIS-Japan Institute of International Affairs-Confederation of Indian Industry report, "The four most significant areas for meeting India's energy needs over the next two decades will be energy efficiency, biomass, nuclear energy, and clean coal." Japan has both market presence and extensive experience in all four areas and can provide New Delhi a viable partnership for a sustainable and security energy policy for the 21st century.[35]

India will also need to forge alliances with countries in strategic regions which share India's interests on matters such as maritime security and trade facilitation, while also providing it with a stepping stone to enter new geographies and regions. One such example would be the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) that was formed in 1997 with the objective of promoting and facilitating trade and investment cooperation between the countries bordering the Indian Ocean rim. Here, forging better ties with South Africa on one hand and with Australia on the other would help India meet its geopolitical, commercial, and wider regional interests in Africa and the Asia-Pacific, respectively, for example. India will also need to concentrate on countries and regions where the gains will be commensurate to the costs in terms of time and negotiating effort and the extent to which specific sectoral interests and concerns can be addressed. In this light, India's recent integration efforts with MERCOSUR may not yield much result due to the basic problems of geographic difference and high transport costs and the extent to which its key interests in terms of services, investment, and diversification of export markets, can be addressed by this region.

[35] http://www.bilaterals.org/article.php3?id_article=9463

In short, a variety of considerations, commercial, strategic, geo-political, cultural, have guided and will continue to shape India's regional integration initiatives. But if India would like to truly benefit from these initiatives and realise the welfare gains that such agreements can potentially yield then it must be prepared to do three things. First, it must be prepared to look beyond its immediate defensive and narrow interests in particular sectors and products. Second, it must complement its liberalisation efforts in the context of such agreements with well developed and forward looking reform measures to build capacity and leverage the market access that is obtained. Finally, it must look beyond traditional sectors and go beyond a status quo view of bilateral relations in order to address emerging areas and opportunities such as in services or overseas investments and thus create the basis for a more dynamic and competitive bilateral relationship with its partners.

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