

INDIA-THAILAND BILATERAL TRADE A REVIEW AGAINST THE BACKDROP OF THE FRAMEWORK TRADE AGREEMENT

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Abstract

India and Thailand are about to sign a Free Trade Agreement (FTA) by mid 2012 targeted to streamlining the trade relations between the two countries. The Framework Agreement, inked between the countries in 2003 to pilot the FTA process, has been paving an appropriate background for establishing efficient trade relations through setting up a free trade area covering goods, services and investment. The Framework Agreement has also been providing a Protocol for an Early Harvest Scheme (EHS) under which common items of export interest to the sides be identified for the elimination of trade tariffs on a fast-track basis. The paper examines the trade relations between the two countries in terms of trade volumes during the Framework Agreement period in comparison to the period prior to the agreement.

Keywords: Bilateral Trade – Free Trade Agreements – Framework Agreements – FTAs – Indo-Thai FTA – Early Harvest Scheme

บทคัดย่อ

ประเทศอินเดียและประเทศไทยกำลังจะลงนามในข้อตกลงทางการค้าเสรีในกลางปี 2555 โดยมีเป้าหมายเพื่อพัฒนาความสัมพันธ์ทางการค้าระหว่างสองประเทศกรอบข้อตกลงระหว่างสองประเทศที่ได้ลงนามในปี 2546 เพื่อนำร่องกระบวนการข้อตกลงการค้าเสรีได้เป็นใบเบิกทางสำหรับการสถาปนาความสัมพันธ์ทางการค้าที่มีประสิทธิภาพโดยการตั้งเขตการค้าเสรีที่ครอบคลุมสินค้าบริการและการลงทุน กรอบข้อตกลงนี้ถือเป็นข้อตกลงเบื้องต้นของการทำความตกลง Early Harvest Scheme (EHS) ซึ่ง

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ทั้งสองฝ่ายจะระบุนโยบายส่งออกที่ต้องการให้มีการลดภาษีศุลกากรอย่างรวดเร็ว บทความนี้ศึกษาความสัมพันธ์ทางการค้าของไทยและอินเดียโดยเปรียบเทียบปริมาณการค้าในช่วงที่มีกรอบข้อตกลงกับช่วงที่ยังไม่มีกรอบข้อตกลง

INTRODUCTION

Integration of economies through international trade has been acquiring great momentum during these days of globalization. Trade pacts between nations and conglomerations of nations to streamline trade relations pave the way for the increased integration of trade. The unprecedentedly higher number of inkings of bilateral Free Trade Agreements (FTAs) rationalizing international trade relations among nations is certainly looking to increase the cross-border exchange of goods and services. Bilateral or multilateral FTAs ensuring the smooth flow of goods and services, minimizing trade barriers to the extent possible is therefore an important backdrop setting for nations to flourish by international trade. Moreover, comparative advantage due to technological and geographical differences also necessitates that nations concentrate on efficient areas of production and to stimulate growth with exports. Increasing exports lead to greater capacity utilization, economies of scale, incentives for technical improvement and efficient management due to competitive pressure abroad.

Free Trade Agreements (FTAs)

Free Trade Agreements (FTAs) play a significant role in reducing the trade barriers between different nations. Generally, FTAs have aimed at the reduction of tariff and non-tariff barriers and the creation of a

more stable and transparent trading and investment environment among nations. Increasing integration of economies, primarily through trade relations, is getting accelerated through FTAs. The share of exports from countries to their FTA partners is growing at a faster rate than the export of goods and services to the rest of the world. The trade momentum through FTAs started accelerating during the period after the Second World War. The developed nations' striving to cushion the post war economic struggle has led to the progressive liberalization of trade between nations. Successive rounds of negotiations within the General Agreement on Tariffs and Trade (GATT) framework have cut tariffs on trade from an average level of 40 per cent in 1947 to the present level of 3 per cent in addition to phasing out different non-tariff barriers (Cherunilam, 2010).

Framework Agreement between India and Thailand

India and Thailand, both being Asian nations, are considered as developing countries with significant difference in geographical area and population. Area wise, India is six times larger than Thailand. According to the latest statistics, the Indian population is 1.21 billion (Census of India, 2011) while the population of Thailand is only 66.72 million (CIA, World Factbook July 2011 est.). The significant high level interaction between India and Thailand was started by Mr. Rajiv Gandhi, the then

Indian Prime Minister, when he visited Thailand in 1986. The initiative taken by him was further stimulated by Mr. P.V. Narasimha Rao, the Indian Prime Minister who succeeded Mr. Gandhi, by making an official visit to Thailand in 1993. Even though there had been several prior official visits between India and Thailand, a productive effort was made only in the year 2002 when the then Thai Prime Minister Mr. Thaksin Shinawatra paid a visit to India. During his visit, the two countries decided to set up a Joint Working Group (JWG) on security issues. The JWG institutionalized security co-operation in 2003 (Kaul, 2006).

India and Thailand signed a Framework Agreement on 9th October 2003 for setting up a Free Trade Area (FTA) covering goods, services and investment. As per the 'Early Harvest Scheme (EHS)' under the agreement, a common list of 82 items for exchange of tariff concessions at the 6-digit level was agreed upon and it was also agreed that tariffs on these identified items were to be eliminated by March 1, 2006. Further, both the countries decided to set up a comprehensive FTA by 2010 (Department of Commerce, Government of India). Even though both the countries had reduced the tariffs on these selected items by 2004, further negotiations on the FTA did not progress as scheduled due to an exception regarding the 'sensitive list'. The items in the sensitive list would not be subject to any tariff cut and both the countries have come up with their own different sensitive lists. India's sensitive list contains one thousand items while that of Thailand contains only one hundred items. Thailand demands a reduction in the number of items in the Indian sensitive list (The Financial Express, 2005). Meanwhile, it has

been maintained that the interests of some domestic Indian manufacturers could be hurt due to cheaper imports from Thailand. The combined result of all these factors has led to a deadlock in the establishment of the FTA (The Financial Express, 2005). However, the negotiations made by the Thai Interim Prime Minister Gen. Surayud Chulanont during his Indian visit in 2007 initiated a process to break the deadlock.

METHODOLOGY FOR REVIEW

The paper reviews bilateral trade between India and Thailand by comparing the trade volumes during the Framework Agreement period (2003 onwards) with the trade volumes for a seven year period prior to the Framework Agreement. The comparison is relevant because the Framework Agreement has initiated many steps as pilot measures to enhance bilateral trade on the verge of the forthcoming FTA to be signed between the two countries. The year to year growth and index growth in exports to Thailand and imports from Thailand are computed to interpret the trade data. Compound Annual Growth Rate (CAGR) is primarily used to examine trade relations during the Framework Agreement period and the period prior to it.

RESULTS AND DISCUSSION

As explained in the methodology part above, the trade analysis is made by bifurcating the period of analysis into two; one period represents the trade scenario prior to the Framework Agreement (1996-97 to 2002-03) and the other represents the sce-

nario during the ongoing Framework Agreement period (2003-04 to 2010-11).

1. Indian Exports to Thailand

a) Exports before the Framework Agreement

India's exports to Thailand during 1990s primarily included items such as steel products, aluminium products, chemical products, diamonds and jewelry, frozen seafood, vegetable oil and dairy products. The analysis of exports of India to Thailand during the period prior to the Framework Agreement in 2003 (1996-97 to 2002-03) reveals an in-

dex growth of 159.08. The year to year growth shows a fluctuating scenario with no consistency in growth. The year to year analysis of growth in export volume reports a highest rate of 40.06 per cent in 1999-2000 and a lowest negative rate of 23.3 per cent in 1997-98. Altogether, the period reports a CAGR of 11.15 per cent in exports (Table 2). Compared to the year to year growth in total exports of India, the year to year growth in exports to Thailand is found to be more consistent during the period. Moreover, the CAGR of exports to Thailand is also higher (11.15 per cent) than the CAGR of total exports of India (7.57 per cent, Table 2).

Table 1: India's Exports to Thailand prior to the Framework Agreement (1996-97 to 2002-03) (in US\$ million)

Year	Exports to Thailand	Year to Year Growth (%)	Index
1996-97	447.08	-	100
1997-98	342.90	-23.30	76.70
1998-99	321.00	-06.39	71.80
1999-00	449.59	40.06	100.56
2000-01	530.12	17.91	118.57
2001-02	633.13	19.43	141.61
2002-03	711.20	12.33	159.08
CAGR of Exports (%)		11.15	

Source: Ministry of Commerce, Govt. of India

Table 2: India's Exports to Thailand and Total Exports (Prior to Framework Agreement) (in US\$ million)

Year	Exports to Thailand	Total Exports	% share in Total Exports	% growth in India's Total Exports	% growth in India's Exports to Thailand
1996-97	447.08	33469.95	1.34	-	-
1997-98	342.90	34784.98	0.99	3.93	-23.3
1998-99	321.00	33218.72	0.97	-4.5	-6.39
1999-00	449.59	36822.49	1.22	10.85	40.06
2000-01	530.12	44560.29	1.19	21.01	17.91
2001-02	633.13	43826.72	1.44	-1.65	19.43
2002-03	711.20	52719.43	1.35	20.29	12.33
CAGR (%)	11.15	7.57	-	-	-

Source: Ministry of Commerce, Govt. of India

b) Exports after the Framework Agreement

The export figures of India to Thailand during the eight year period after the Framework Agreement (Table 3) make clear that even though the year to year growth has not been stable, India's export volume has reported an index growth of 335.80. During the period, the highest year to year growth of 60.49 per cent was recorded in 2010-11 and the lowest growth of a negative 10.22 per cent in 2009-10. The period after the Frame-

work Agreement is characterised by a relatively higher growth in exports by India to Thailand with a CAGR of 16.38 per cent (Table 3). Noticeably, the CAGR of exports to Thailand during the Framework Agreement period (16.38 per cent) is found to be lower compared to the CAGR of India's total exports during the period (18.34 per cent; Table 4). However, during the period before the Framework Agreement, the CAGR of India's exports to Thailand was higher than that of the CAGR of India's total exports.

Table 3: India's Export to Thailand after the Framework Agreement (2003-04 to 2010-11) (in US\$ million)

Year	Exports to Thailand	Year to Year Growth (%)	Index
2003-04	831.68	16.94	100
2004-05	901.39	08.38	108.38
2005-06	1075.31	19.29	129.29
2006-07	1445.54	34.43	173.81
2007-08	1810.87	25.27	217.74
2008-09	1938.31	07.04	233.06
2009-10	1740.16	-10.22	209.23
2010-11	2792.80	60.49	335.80
CAGR of Export (%)		16.38	

Source: Ministry of Commerce, Govt. of India

Table 4: India's Exports to Thailand and Total Exports after the Framework Agreement (in US\$ million)

Year	Exports to Thailand	Total Exports	% share in Total Exports	% growth in India's Total Exports	% growth in India's Exports to Thailand
2003-04	831.68	63842.55	1.3	21.1	16.94
2004-05	901.39	83535.94	1.08	30.85	8.38
2005-06	1075.31	103090.5	1.04	23.41	19.29
2006-07	1445.54	126414.1	1.14	22.62	34.43
2007-08	1810.87	163132.2	1.11	29.05	25.27
2008-09	1938.31	185295.4	1.05	13.59	7.04
2009-10	1740.16	178751.4	0.97	-3.53	-10.22
2010-11	2792.8	251135.9	1.11	40.49	60.49
CAGR (%)	16.38	18.34	-	-	-

Source: Ministry of Commerce, Govt. of India

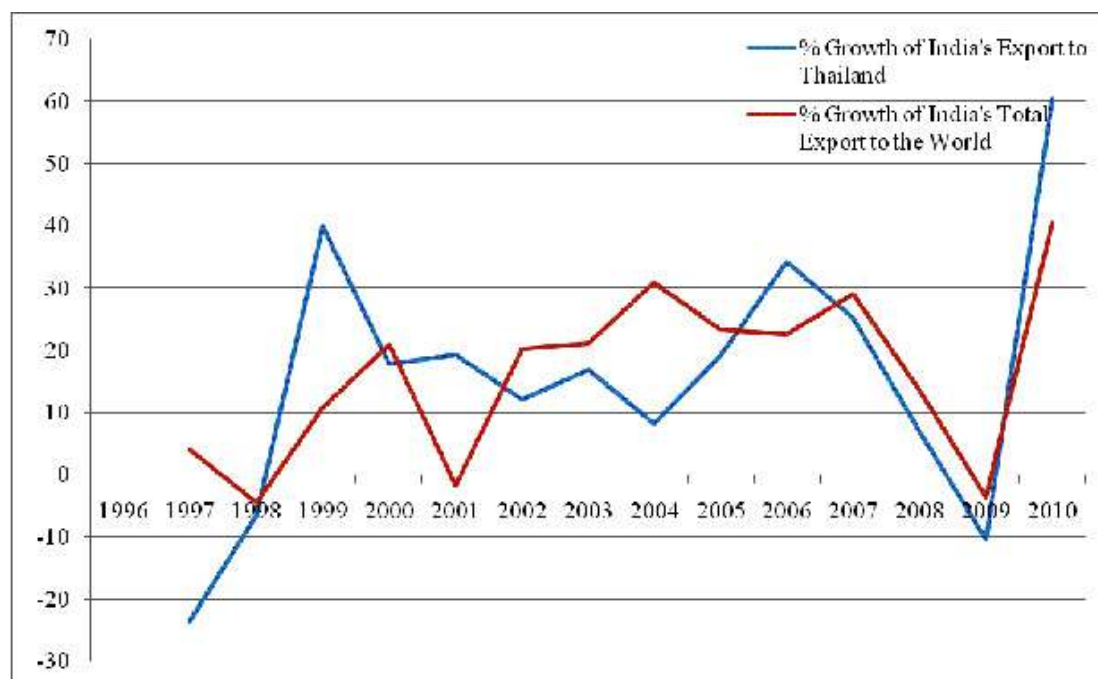


Figure 1: Percentage Growth of India's Exports to Thailand and Total Exports

2. India's Imports from Thailand

a) Imports before the Framework Agreement

India's import basket from Thailand includes polymers of ethylene and propylene, radio broadcast receivers, television receivers and parts, iron and steel products, motor

cars, car parts and accessories, machinery and parts, automatic data processing machines, chemical products, air conditioners and parts and so on. The details of India's imports from Thailand during a seven year period immediately preceding the Framework Agreement is depicted in Table 5. The figures for year to year growth swing between

Table 5: India's Imports from Thailand prior to the Framework Agreement (1996-97 to 2002-03) (in US\$ million)

Year	Imports from Thailand	Year to Year Growth (%)	Index
1996-97	197.19	-	100
1997-98	226.57	14.90	114.90
1998-99	273.11	20.54	138.50
1999-00	326.02	19.37	165.33
2000-01	337.92	03.65	171.37
2001-02	423.09	25.20	214.56
2002-03	379.00	-10.42	192.20
CAGR of Imports (%)		12.22	

Source: Ministry of Commerce, Govt. of India

the highest of 25.2 per cent in 2001-02 and the lowest of a negative 10.42 per cent in 2002-03. The index growth for the period is 192.20 which indicate the dwindling nature of growth. Moreover, India's imports from Thailand during the period prior to the Framework Agreement (CAGR 12.22 per cent) grew nearly two times more than India's total imports (CAGR 6.99; Table 6).

b) Imports after the Framework Agreement

The analysis of imports from Thailand during the Framework Agreement period (Table

7) reveals a different story compared to exports. It discloses a rapid increase in the volume of India's imports from Thailand with an index growth of 701.44. The year to year growth fluctuates between the highest growth of 60.7 per cent in 2003-04 and the lowest of 8.42 per cent in 2009-10. The growth in imports from Thailand is found to be more consistent than the growth in India's total imports during the Framework Agreement period. Evidently, the CAGR of imports from Thailand (26.69 per cent) is considerably higher than that of the CAGR of India's total imports (21.51 per cent).

Table 6: India's Total Imports from Thailand and Total Imports (Prior to Framework Agreement) (in US\$ million)

Year	Imports from Thailand	Total Exports	% share in Total Imports	% growth in India's Total Imports	% growth in India's Imports from Thailand
1996-97	197.19	39132.41	0.5	-	-
1997-98	226.57	41484.49	0.55	6.01	14.9
1998-99	273.11	42388.71	0.64	2.18	20.54
1999-00	326.02	49738.06	0.66	17.34	19.37
2000-01	337.92	50536.45	0.67	1.61	3.65
2001-02	423.09	51413.28	0.82	1.74	25.2
2002-03	379	61412.14	0.62	19.45	-10.42
CAGR (%)	12.22	6.99	-	-	-

Source: Ministry of Commerce, Govt. of India

Table 7: India's Imports from Thailand after the Framework Agreement (2003-04 to 2010-11) (in US\$ million)

Year	Imports from Thailand	Year to Year Growth (%)	Index
2003-04	609.05	60.7	100
2004-05	865.88	42.17	142.17
2005-06	1211.58	39.92	198.93
2006-07	1747.75	44.25	286.96
2007-08	2300.93	31.65	377.79
2008-09	2703.82	17.51	443.94
2009-10	2931.52	8.42	481.33
2010-11	4272.09	45.73	701.44
CAGR of Import (%)		26.69	

Source: Ministry of Commerce, Govt. of India

**Table 8: India's Import from Thailand and Total Import
(After the Framework Agreement) (in US\$ million)**

Year	Imports from Thailand	Total Exports	% share in Total Imports	% growth in India's Total Imports	% growth in India's Imports from Thailand
2003-04	609.05	78149.11	0.78	27.25	60.7
2004-05	865.88	111517.4	0.78	42.7	42.17
2005-06	1211.58	149165.7	0.81	33.76	39.92
2006-07	1747.75	185735.2	0.94	24.52	44.25
2007-08	2300.93	251654	0.91	35.49	31.65
2008-09	2703.82	303696.3	0.89	20.68	17.51
2009-10	2931.52	288372.9	1.02	-5.05	8.42
2010-11	4272.09	369769.1	1.16	28.23	45.73
CAGR(%)	26.69	21.51	-	-	-

Source: Ministry of Commerce, Govt. of India

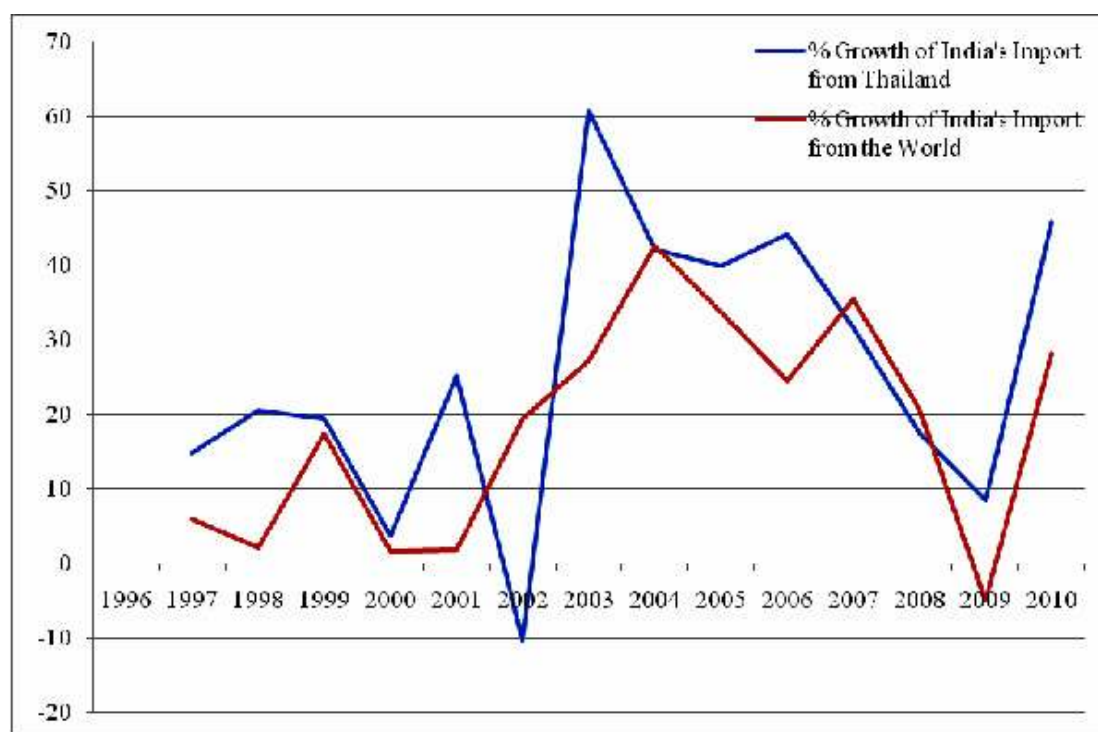


Figure 2: Percentage Growth of India's Imports from Thailand and Total Imports

Table 9: CAGR of Exports and Imports (Consolidated)

Particulars	CAGR (%)	
	Before the Framework Agreement	After the Framework Agreement
Exports to Thailand	11.15	16.38
Total Exports of India	7.57	18.34
Imports from Thailand	12.22	26.69
Total Imports of India	6.99	21.51

It is quite evident from the consolidated statement (Table 9) that although export by India to Thailand has grown considerably during the Framework Agreement period (CAGR 16.38 per cent) compared to the period prior to the agreement (CAGR 11.15 per cent), the growth in imports from Thailand is found to be much higher during the Framework Agreement Period (CAGR 26.69 per cent) as compared to the CAGR of only 12.22 per cent in imports during the period prior to the Framework Agreement. While the growth in India's total exports (CAGR 18.34 per cent) outweighs the growth in exports to Thailand (CAGR 16.38 per cent) during the Framework Agreement period, the growth in imports from Thailand (CAGR 26.69 per cent) outweighs the growth in total imports of India (CAGR 21.51 per cent) during the period. This is a clear indication that the trade during the Framework Agreement period has been more beneficial to Thailand than to India.

CONCLUSION

The Framework Agreement signed between India and Thailand in 2003, as part of paving the way for a Free Trade Agreement (FTA) in the future, has consistently sought out means for increased trade between the countries. As a pilot agreement ex-

ploring the free trade area and implementation of an "Early Harvest Scheme", it has resulted in streamlining the bilateral trade process. Obviously, the Framework Agreement has been witnessing much higher growth in imports from Thailand to India than growth in exports to Thailand, signaling a trade advantage to Thailand. The proposed FTA scheduled to be signed during mid-2012 brings more scope and hope for both the countries. Though efforts to maximise trade advantages through an FTA are welcomed, evolving strategies and equipping related fields are considerably more important for the nations concerned.

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