FACULTY OF ECONOMICS TUL

Master Thesis

Regional Trade Agreements and their Impact on Indian Economy.

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Author: **Pradeep Marimuthu**
Thesis Supervisors: doc. Ing. Zuzana Pěničková, Ph.D.
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- RAVENHILL, John (ed.), 2017. *Global political economy*. Fifth edition. Oxford, United Kingdom: Oxford University Press. ISBN 978-0-19-107133-1.
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Thesis Supervisors: doc. Ing. Zuzana Pěničková, Ph.D.
Department of Marketing and Trade

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L.S.

doc. Ing. Aleš Kocourek, Ph.D.
Dean

prof. Ing. Miroslav Žižka, Ph.D.
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Anotace

Tato práce poskytuje studii o dopadu regionálních obchodních dohod (RTA) na dynamiku obchodu Indie se zaměřením na obchodní vztahy mezi Indií, Japonskem a Jižní Koreou. Prostřednictvím podrobného zkoumání si studie klade za cíl objasnit, jak regionální obchodní dohody ovlivňují ekonomickou integraci a obchodní vztahy v těchto regionech. První kapitola vytváří teoretický rámec pro pochopení regionalismu a zdůrazňuje perspektivu Indie. Zkoumá vývoj nediskriminačních obchodních zásad od GATT po WTO a zároveň zkoumá spektrum obchodních politik a překážek. Druhá kapitola se zabývá různými formami ekonomické integrace a zdůrazňuje roli makroekonomických ukazatelů při hodnocení úrovní integrace. Třetí kapitola provádí analýzu PEST a hodnotí ekonomické prostředí Indie a poskytuje pohled na klíčové ukazatele. Čtvrtá a pátá kapitola se zaměřují na hospodářské vztahy Indie s Japonskem a Jižní Koreou a analyzují dopad Dohody o hospodářském partnerství (CEPA) na snižování cel, netarifní opatření a dovozní a vývozní toky. Tyto kapitoly zdůrazňují úspěšné příběhy indických společností a zdůrazňují úlohu CEPA při podpoře hlubších strategických partnerství.

Klíčová slova

Regionalismus, ekonomická integrace, obchodní dohody, import, export

Annotation

This thesis provides a study on the impact of Regional Trade Agreements (RTAs) on India's trade dynamics, with a focus on trade patterns among India, Japan, and South Korea. Through detailed investigation, the study aims to clarify how RTAs influence economic integration and trade relationships within these regions. The first chapter establishes a theoretical framework for understanding regionalism, emphasizing India's perspective. It examines the evolution of non-discriminatory trade principles from GATT to the WTO while exploring the spectrum of trade policies and barriers. The second chapter delves into various forms of economic integration and emphasizes the role of macroeconomic indicators in assessing integration levels. Conducting a PEST analysis, the third chapter evaluates India's economic environment, providing insights into key indicators. The fourth and fifth chapters focus on India's economic relations with Japan and South Korea, analyzing the impact of the Comprehensive Economic Partnership Agreement (CEPA) on tariff reduction, non-tariff measures, and import-export flows. These chapters highlight the success stories of Indian companies and underscore the CEPA's role in fostering deeper strategic partnerships and mutual prosperity

Keywords

Regionalism, Economic Integration, Trade Agreements, Import and Export

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List of Abbreviations

APTA	Asia Pacific Trade Agreement
ASEAN	Association of South East Asian Nations
CEPA	Comprehensive Economic Partnership Agreement
CU	Customs Union
EAC	East African Community
ESCAP	UN Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ICT	Information and Communication Technology
INR	Indian Rupee
IT	Information Technology
JPY	Japanese Yen
LCU	Local Currency Unit
MERCOSUR	Mercado Común del Sur (Southern Common Market)
MFN	Most Favored Nation
MNE	Multi-National Enterprise
NAFTA	North American Free Trade Agreement
NASSCOM	National Association of Software and Service Companies
NTM	Non-Tariff Measures
ODA	Official Development Assistance

OECD	Organization for Economic Cooperation and Development
PEST	Political, Economic, Social, and Technological Analysis
POSCO	Pohang Iron and Steel Company, Ltd
PSA	Partial Scope Agreement
PTA	Preferential Trade Agreement
RBI	Reserve Bank of India
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TCS	Tata Consultancy Services
UNCTAD	United Nations Conference on Trade and Development
USD	US Dollar
WTO	World Trade Organization

Introduction:

In the realm of international trade, we witness the emergence of regional trade blocs that wield significant influence on global commerce. Regionalism, the phenomenon of economic integration among neighboring or like-minded nations, has become a defining feature of contemporary trade relations. These regional trade agreements (RTAs) bind nations together, fostering cooperation and facilitating smoother trade flows and investment within the bloc. Yet, the ramifications of RTAs extend far beyond the borders of member countries, resonating across the broader landscape of global trade. As such, understanding the intricacies and implications of regionalism and RTAs is imperative for comprehending the evolving dynamics of international trade in today's interconnected world.

In the context of India, regionalism in international trade holds significant implications for the nation's economic trajectory. As India continues to navigate the complexities of the global market, its engagement with regional trade blocs and agreements becomes increasingly vital. The country's participation in initiatives like the Comprehensive Economic Partnership Agreement (CEPA) with nations such as Japan and South Korea underscores its commitment to fostering regional economic integration. Through such agreements, India seeks to expand its market access and aims to leverage its strategic partnerships to bolster key sectors of its economy. Regionalism offers India an avenue to enhance trade relations, promote investment flows, and tap into emerging opportunities within neighboring regions. Moreover, as global trade dynamics evolve, India's proactive engagement with regional trade mechanisms becomes integral to its broader economic agenda, fostering sustainable growth and competitiveness on the international stage.

This thesis aims to examine the impact of Regional Trade Agreements (RTAs) on Indian trade dynamics through a comparative analysis of trade interactions among India, Japan, and South Korea. By delving into the intricate trade relationships within these regions, this study seeks to elucidate the overarching influence of RTAs on the Indian economy. Specifically, the research endeavors to evaluate the effects of Tariff Reductions and Non-Tariff Measures facilitated by RTAs on trade patterns and economic integration among these countries, while also shedding light on the strategies employed by Indian companies to establish a foothold in foreign markets. Through meticulous analysis of import-export trends, trade balances, and sectoral performance, this study aims to offer a comprehensive understanding of the manifold benefits associated with RTAs for India.

The first chapter lays the groundwork for the thesis, offering a theoretical framework to understand regionalism, particularly from India's standpoint. It begins with an overview of regionalism, tracing the evolution of non-discriminatory principles in trade from GATT to the WTO. Exploring a spectrum of trade policies, from protectionism to liberalism, it examines their impact on regional economic integration. Additionally, the chapter probes into tariff and non-tariff barriers, analyzing their effects on regional integration. By scrutinizing both static and dynamic trade effects, the chapter aims to provide insights into regionalism's diverse facets and its influence on India's trade. This exploration provides readers with a foundational understanding of regionalism's complexities and its role in shaping contemporary international trade dynamics.

The second chapter aims to provide a comprehensive understanding of economic integration, delineating its various forms and exploring the role of macroeconomic indicators in assessing integration levels. By examining the types of economic integration, including free trade areas, customs unions, common markets, and the intricacies of Regional Trade Agreements (RTAs) as governed by WTO rules, the chapter aims to elucidate the progressive nature of integration efforts. Furthermore, it aims to highlight the significance of macroeconomic indicators in evaluating the effectiveness and impact of integration initiatives, particularly in the context of regional trade agreements

The third chapter offers a comprehensive analysis of India's economic landscape by focusing on key macroeconomic indicators and conducting a PEST analysis. It seeks to shed light on the opportunities and challenges within the Indian market by examining political, economic, social, and technological factors that influence the business environment. Through an exploration of indicators like GDP, foreign direct investment, inflation, trade balances, and exchange rates, this chapter provides valuable insights into India's macroeconomic dynamics. By understanding these dynamics, investors, companies, and policymakers can gain deeper insights into India's economic environment and make informed decisions.

The fourth and fifth chapters aim to provide a comprehensive exploration of the economic ties between India, Japan, and South Korea, focusing on the Comprehensive Economic Partnership Agreement (CEPA) and its implications. Beginning with an overview of Japan-South Korea relations and their historical context, the chapters delve into the pre-CEPA period, examining key trade dynamics and investment patterns. They analyze the significance of the CEPA in facilitating tariff reduction and addressing non-tariff measures, thereby fostering economic cooperation. Additionally, the chapters probe the agreement's impact on import and export flows between India and Japan-South Korea, highlighting the success stories of Indian companies in these markets. Ultimately, the goal is to expound the concrete benefits brought by the CEPA to India, fostering deeper strategic partnerships and mutual prosperity.

1 The Theoretical Background of Regionalism

This chapter delves into the historical development of regionalism, elucidating India's position within it. The non-discriminatory tenets of GATT, its evolution into the WTO, and a summary of trade policies ranging from protectionism to liberalism are all covered in detail. After delving into tariff and non-tariff barriers, we analyze the static and dynamic effects of trade in our conclusion. This chapter seeks to provide a deeper understanding of regionalism.

1.1 Regionalism and GATT

Regionalism in international trade denotes the process of economic integration among two or more nations through official agreements, (Glania a Matthes, 2005). According to (Söderbaum, 2004), *Regionalism is not a new phenomenon*. Interdependence and interaction between 'nationals' (communities) have existed since ancient times. Nonetheless, what is now known as (voluntary and comprehensive) regionalism is primarily a post-Second World War phenomenon, though the 1930s protectionist trend is sometimes regarded as the first wave. From this vantage point, there have been two major waves of regionalism.

The first wave arose from the devastation of interwar nationalism and the Second World War. It first appeared in Western Europe in the late 1940s, but despite being exported to several other southern regions, it died out in the late 1960s and early 1970s. The second wave emerged in the mid-1980s, beginning in Western Europe (with the White Paper and the Single European Act) and gradually spreading to other parts of the world, the concept of 'region' is central to the study of regionalism.

Regionalism, as policy and project, can clearly operate both above and below the level of the state, and sub- or supra-state regional activity can inform state-level activity, and so on. Indeed, a truly successful regionalist project today assumes eventual linkages between state and non-state actors: an interlocking network of regional governance structures, such as those already found in Europe and, to a lesser extent, the Americas, as demonstrated by the NAFTA process (Fawcett, 2004).

Regionalism serves as a multifaceted mechanism, extending beyond economic integration to foster political collaboration and cultural exchange among member nations. While regional agreements aim to enhance trade relations, they also address shared challenges such as security, environmental protection, and social development. By promoting dialogue and collaboration, regionalism builds trust and understanding, facilitating deeper integration and cooperation

In addition to economic considerations, regional initiatives often act as testing grounds for new policies before broader implementation, contributing to global initiatives. Jacob Viner's seminal work (1950) compared the trade-creating effects of regional integration to the trade-diverting effects, highlighting that Customs Unions (CUs) and Free Trade Agreements (FTAs) may not always benefit member countries or global welfare (Guzmán a Sykes, 2008), (Bhagwati, 1992).

By learning the concept of Regionalism in International Trade and looking at India's involvement in Regionalism, we see how past interactions in regional settings influence trade decisions today.

1.1.1 India and Regionalism

India is a South Asian country that is very diverse and Dynamic. India is well-known for its historical significance, rich cultural legacy, and developing economy. India is the most populated country in the world and the seventh-largest country by land area, making it an important player in both regional and international affairs. More demographics are covered in Chapter 3.

With the signing of the Bangkok Agreement in 1975, India started its involvement in regionalism, which eventually led to the creation of the Asia-Pacific Trade Agreement (APTA) in 2005. The founding of the South Asian Association for Regional Cooperation (SAARC) in 1995, which paved the way for the South Asian Free Trade Area (SAFTA) in 2006, was a momentous occasion. The first bilateral free trade agreement (FTA) between India and Sri Lanka was signed in 2000, and it signaled the start of several RTAs. According to WTO, Fifteen RTAs are in operation, demonstrating India's dedication to regional economic cooperation. India's proactive approach to regional integration and trade liberalization is demonstrated by the country's goal of expanding its RTA network, with a particular focus on major partners such as the European Union and Japan, (Jha, 2013). The below figure (fig:1.1) contains the RTAs that India signed along with the Region/Country.,

RTA Name	Coverage	Type	Date of notification
India - Sri Lanka	Goods	FTA	17-Jun-2002
India - Singapore	Goods & Services	FTA & EIA	03-May-2007
India - Bhutan	Goods	PSA	30-Jun-2008
Chile - India	Goods	PSA	13-Jan-2009
Southern Common Market (MERCOSUR) - India	Goods	PSA	23-Feb-2010
India - Afghanistan	Goods	PSA	08-Mar-2010
Korea, Republic of - India	Goods & Services	FTA & EIA	01-Jul-2010
India - Nepal	Goods	PSA	02-Aug-2010
ASEAN - India	Goods & Services	FTA & EIA	19-Aug-2010(G) 20-Aug-2015(S)
India - Malaysia	Goods & Services	FTA & EIA	06-Sep-2011
India - Japan	Goods & Services	FTA & EIA	14-Sep-2011
India - Thailand	Goods	PSA	18-Jun-2017
India - Mauritius	Goods & Services	FTA & EIA	15-Apr-2021
India - United Arab Emirates	Goods & Services	FTA & EIA	22-Sep-2022
India - Australia	Goods & Services	FTA & EIA	07-Sep-2023

Figure 1: *List of RTAs signed by India*

Source: (WTO, 2024)- World Trade Organization, Regional Trade Agreements Database.

The context of India & Regionalism (In terms of Regional Trade Agreements) is explained elaborately in the upcoming chapters. Up next is an elaborate overview of GATT (General Agreement on Tariffs & Trade)

1.1.2 GATT – General Agreement on Tariffs & Trade:

GATT (General Agreement on Tariffs and Trade). Under the guidance of the United Nations, 23 countries formed GATT in 1947 to abolish quotas and reduce tariffs. Many people believe that GATT's contribution to trade liberalization enabled global trade to expand in the second half of the twentieth century.

From 1948 to 1994, the GATT played a pivotal role in overseeing global trade, exhibiting notable success in reducing tariffs and fostering international commerce. The fundamental principle of GATT was that each member nation's markets must be open equally to all other members. This principle of "trade without discrimination" was embodied in GATT's most-favored-nation (MFN) clause—once a country and its trading partners agreed to reduce a tariff, that tariff cut was automatically extended to every other member country, regardless of whether the country was a signatory to the agreement, (WTO, 1986). The Articles that focus on “Non-Discrimination on Trade” are…

- **Article I: General Most Favored-Nation Treatment:**

In elaboration, GATT Article 1 emphasizes the principle of non-discrimination in international trade. Member countries must immediately and unconditionally extend any advantage, favor, privilege, or immunity granted to a product originating in or destined for one country to the same product from all other member countries. However, there are exceptions for preferences between certain territories, as well as specific conditions for preferences in effect between certain countries. This article ensures that trade advantages are applied consistently and prohibits discriminatory practices among GATT member countries.

By this article, GATT guards its member countries against discriminatory practices and makes certain that trade advantages are applied uniformly.

- **Article III: National Treatment on Internal Taxation and Regulation**

Article III also emphasizes the principle of Non-Discrimination against other countries in the form of imported and domestic products. The principle was achieved by forbidding Internal taxes, fees, and rules that give preference to homegrown production. The article makes sure that imported goods are treated equally under domestic laws and regulations and are not subject to additional taxes or fees than comparable domestic goods. There are some exceptions, such as government procurement, existing regulations, and domestic producer subsidies.

In general, Article III aims to create a non-discriminatory trading environment among contracting parties by promoting fair and equitable treatment for all products, (WTO, 1994a).

1.1.3 How GATT was changed to WTO:

GATT dealt with non-tariff barriers in terms of industrial standards, government procurement, subsidies and countervailing duties (duties imposed in response to another country's protectionist measures), licensing, and customs valuation over time.

The Tokyo Round (1973-1979) aimed at further tariff reduction and introduced non-binding "codes" to address non-tariff barriers. However, challenges persisted, especially in the farm trade.

The turning point came with the Uruguay Round (1986-1994), the most extensive negotiation effort, which not only tackled tariffs but also addressed critical issues like services, intellectual property, and agriculture.

Then GATT began to encounter difficulties in 1995. Its success prompted some governments to devise more sophisticated trade protection strategies. World trade became more complex, and trade in services, which was not covered by GATT rules, became more important. GATT's institutional structure and dispute-resolution system appeared to be becoming increasingly overburdened on a procedural level. Furthermore, it could not enforce agreement compliance. Trade agreements became more difficult to negotiate as a result of market trends and organizational challenges.

Despite GATT's undeniable success, economic downturns in the 1970s and 1980s prompted protectionism, emphasizing the need for a more robust and adaptable multilateral trading system, which led to the establishment of the WTO, (WTO, 1995).

Pros. Of GATT

- GATT promoted international trade.
- Countries that have trade agreements are less likely to go to war with each other.
- GATT's success influenced other international agreements and organizations.
- Trade improves communication.

GATT, through its promotion of international trade, has significantly contributed to economic growth and prosperity worldwide. Moreover, the establishment of trade agreements under GATT has fostered greater stability among participating countries, reducing the likelihood of conflicts and promoting peaceful relations. Furthermore, GATT's success has set a precedent for international cooperation, inspiring the formation of other agreements and organizations aimed at enhancing global trade. Additionally, increased trade facilitates cross-cultural communication and understanding, fostering interconnectedness among nations.

Cons. Of GATT

- Domestic industries that cannot compete globally are likely to fail.
- Globalization exposes more people to industry-specific risks.
- Trade agreements may override domestic laws, requiring governments to give up some control over citizens.
- Small economies and businesses may have difficulty competing with larger economies and businesses, (Karmakar, [s. a.]).

However, GATT's emphasis on free trade has had its drawbacks. Domestic industries that struggle to compete on a global scale may face challenges and even failure, leading to unemployment and economic disruptions. Moreover, the process of globalization, driven by trade agreements like those under GATT, exposes more individuals to industry-specific risks, potentially exacerbating income inequality and social disparities. Additionally, trade agreements may sometimes infringe upon national sovereignty, requiring governments to cede control over certain policy areas to international bodies. Lastly, smaller economies and businesses may find it difficult to compete with larger counterparts, leading to unequal opportunities and market dominance.

1.1.4 World Trade Organization

The WTO was established in 1995 to restore an effective means of trade liberalization. The WTO adopted the GATT principles and trade agreements but expanded its mission to include trade in services, investment, intellectual property, sanitary measures, plant health, agriculture, and textiles, as well as technical trade barriers. Significant decisions are made by consensus by the entire membership. If member countries fail to reach an agreement, a majority vote is required. The governments of the member countries must then ratify the agreements.

The WTO's dispute settlement mechanism, in which countries can bring charges of unfair trade practices to a WTO panel and accused countries can appeal, is one function that is gaining traction. All stages of deliberation are time-limited, and WTO rulings are binding. Trading partners have the right to compensation if an offending country fails to comply with the panel's judgment. If this penalty is ineffective, the trading partners of the offending country may impose countervailing sanctions. However, given the ambiguity and time-consuming nature of some cases, the effectiveness of this system is being seriously questioned (Daniels et al., 2022).

According to (WTO, 2016), regionalism is reciprocal preferential trade agreements between two or more partners. These Regional Trade Agreements (RTAs) involve countries negotiating preferential trade terms among themselves. While RTAs appear to compete with the WTO's multilateral trading system, the WTO recognizes that they can support the system by allowing countries to negotiate rules and commitments that go beyond what is possible in multilateral negotiations.

Under two conditions, Article XXIV of the General Agreement on Tariffs and Trade (GATT), as incorporated into the World Trade Organization (WTO), allows WTO-member governments to form customs unions (CUs) or free trade agreements (FTAs). The integration will be anchored in the second chapter

- First members eliminate or significantly reduce all the internal trade barriers within the Union.
- Second, external trade barriers shouldn't be raised on average, (Mrázová et al., 2013).

From the context of India, India became a member of the World Trade Organization (WTO) on January 1, 1995, marking its formal entry into the global trading system.

1.2 Trade Policies – Protectionism and Liberalism

In this section, we will explore the summary of Trade Policies, focusing on their functions and emphasizing the contrasting approaches of "Protectionism" and "Liberalism". By examining these two extremes, we gain insight into the diverse strategies employed in shaping international trade dynamics.

1.2.1 Trade Policy

Trade policy establishes international trade relations' norms, objectives, guidelines, and rules. Public officials in each nation create these policies, which are unique to that nation. Increasing the country's foreign trade is their goal. A nation's import and export levies, inspection guidelines, tariffs, and quotas are all part of its trade policy. (Hossain, 2018) says, In terms of global trade, a trade policy typically concentrates on the following details:

- **Tariffs:** Each nation is able to set its rates for both imported and exported goods. Certain countries impose high import duties to safeguard their domestic industries. Elevated import duties drive up the cost of imported items in regional marketplaces, making homegrown goods more desirable.
- **Barriers:** These are prohibitions put in place by the state on trading a certain good or service with a particular country. Trade barriers include, but are not limited to, tariffs, duties, subsidies, embargoes, and quotas.
- **Safety:** This factor guarantees that the nation only imports goods of the highest caliber. Government representatives have the authority to establish inspection guidelines to guarantee that imported goods meet the established requirements for quality and safety.

1.2.2 Protectionism

The combination of government trade policies designed to support domestic producers against foreign producers in a specific industry—by driving up the cost of imported goods, reducing domestic producers' expenses, and restricting foreign producers' access to the domestic market—is known as protectionism.

The steps to implement protection are...

1. tariff taxes on imports that are still in use despite significant advancements made possible by GATT;
2. restrictions on the number of foreign goods sold on the domestic market, which raise the cost and restrict the supply of imported goods;
3. regulatory barriers that impede the import of goods, such as product classifications and seemingly never-ending lists of requirements;
4. subsidies, varying from direct cash payments to tax breaks, are given to domestic producers;
5. currency controls to restrict access to foreign funds or exchange rate manipulation to drive up the cost of imported goods and drive down the cost of domestic goods, (Abboushi, 2010).

1.2.3 Liberalism

The process of trade liberalization is the opposite of protectionism. Trade liberalization happens when governments choose to return to free trade following earlier protectionist actions, (Hillman, 2008).

Trade liberalization can take three different forms: unilateral, multilateral, and regional.

- First, liberalization can be unilateral: the policy is pursued because it is believed that it will benefit the country as a whole and that most citizens will benefit in the long run, even if there will be some short-run losers. As a result, it is not required to be associated with any international agreement. The external balance will be maintained through exchange rate adjustments. Furthermore, unilateral liberalization makes no explicit distinctions between foreign suppliers, resulting in no trade diversion.

- Second, liberalization can take place on multiple fonts. As a result, the country's liberalization is supplemented by liberalization by others, opening up export markets and improving the country's trade terms relative to the unilateral alternative. This is known as the reciprocity effect. A country benefits when a given level of its own liberalization is associated with reciprocal liberalization by its trading partners, resulting in increased imports from it.

- Finally, there is regional liberalization, of which a bilateral free trade agreement is an example. In that case, the country's liberalization may not apply to all imports, but only to those from the region (the United States in our example). The general effects of liberalization will be the same: imports will increase, with the usual winners and losers. However, in this case, the liberalization is partial and thus discriminatory, resulting in trade diversion effects. Furthermore, regional liberalization has a reciprocal effect: the other FTA member opens its markets to the first country's exports, (Corden, 1997).

1.3 Tariff and non-tariff barriers

Tariff barriers impact prices directly, while non-tariff barriers can influence either the price or quantity of traded goods. In Detail,

Tariff Barriers: A tariff barrier represents a government policy imposing taxes on imported goods, thereby increasing their cost for consumers and importers. These taxes, known as tariffs, serve multiple purposes, including revenue generation for the government and shielding domestic industries from foreign competition. By making imported products costlier, tariffs aim to encourage consumers to favor domestically produced goods and safeguard local industries. The types of Tariff Barriers are.,

- **Ad valorem tariffs:** These are tariffs calculated as a percentage of the value of the imported goods.
- **Specific tariffs:** These are tariffs levied as a fixed amount per unit of imported goods.
- **Compound tariffs:** These tariffs combine both ad valorem and specific elements.
- **Tariff rate quotas (TRQs):** TRQs involve a two-tier tariff system where a lower tariff rate is applied up to a certain quantity of imports, beyond which a higher tariff rate is imposed.
- **Prohibitive tariffs:** These are extremely high tariffs designed to effectively block imports of certain goods.
- **Preferential tariffs:** These tariffs offer lower rates to imports from specific countries or under certain conditions, such as through trade agreements.
- **Retaliatory tariffs:** These tariffs are imposed in response to tariffs or trade barriers imposed by another country, (Sumner et al., 2001).

Non-Tariff Barriers: A non-tariff barrier (NTB) is a form of trade restriction other than a tariff. NTBs are regulations, policies, or measures that countries use to control the flow of goods and services across their borders. These barriers can make it more difficult or costly for foreign businesses to compete in domestic markets, (Yalçin et al., 2017). The types of non-tariff barriers are mentioned in the context of Non-Tariff Measures by UNCTAD.

It impedes the free flow of goods, affecting resource allocation. Regional economic integration reduces or eliminates those barriers for member countries, resulting in both static and dynamic effects. Static effects are the shifting of resources from inefficient to efficient firms as trade barriers fall. Dynamic effects are the overall market growth and the impact on a company caused by expanding production and its ability to achieve greater economies of scale.

1.3.1 Non-Tariff Measures

According to (UNCTAD, 2019), "**Non-Tariff Measures (NTMs)** are defined as NTMs are non-customs tariff policy measures that have the potential to affect international trade in goods by changing quantities traded, prices, or both.

Classification of NTMs

- **Sanitary and Phytosanitary Measures:** Measures taken to protect human or animal life from the risks posed by additives, contaminants, toxins, or disease-causing organisms in their food; to protect human life from plant or animal-borne diseases; to protect animal or plant life from pests, diseases, or disease-causing organisms; to prevent or limit other damage to a country caused by pest entry, establishment, or spread; and to protect biodiversity. These include safeguards for the health of fish, wild fauna, forests, and wild flora.
- **Technical Barriers to Trade:** Measures that involve technical standards, as well as procedures for determining compliance with technical guidelines and requirements.
- **Pre-shipment Inspection & Other formalities:** Procedures required before goods are exported or imported, often to ensure conformity with regulations.
- **Contingent trade-protective measures:** Measures taken to mitigate specific negative effects of imports in the importing country's market, subject to the fulfillment of certain procedural and substantive requirements.
- **Non-automatic licensing, Quotas, Prohibitions & Amp; Quality-Control Measures:** Control measures that generally aim to prohibit or restrict imports, such as measures limiting the number of goods that can be imported, regardless of whether they come from different sources or a specific supplier.

- **Price Control Measures:** Measures taken to control or influence the prices of imported goods in order, for example, to support the domestic price of certain products when import prices are lower; determine the domestic price of certain products due to price volatility in domestic markets or price instability in a foreign market; or increase or preserve tax revenue.
- **Export-Related Measures:** Measures taken by the government of the exporting country concerning exported goods.

Behind-the-border measures, such as competition, trade-related investment measures, government procurement, or distribution restrictions, are also included in the International Classification of NTMs, (United Nations Conference on Trade and Development, 2019).

1.3.2 Static and Dynamic Effects in Trade

Economists such as Viner and Corden have identified the static effects of economic integration, which include trade creation and trade diversion. Later considerations have included internal economies of scale. Members participating in the economic integration arrangement are directly impacted by these effects, which mainly affect consumer welfare and productive efficiency. Static effects impact corporate decisions to invest and divest within or outside of a regional grouping, according to Appleyard and Field, highlighting the consequences for efficiency and consumer welfare within the integrated economic framework, (Mutambara, 2021).

- **Trade Creation:** Integration facilitates production shifts to more efficient producers, leading to increased consumer access to goods at lower prices. Removal of barriers challenges previously protected domestic companies, while enabling more efficient ones to export and expand demand. This shift in investment toward efficient producers or those with comparative advantages enhances market dynamics and fosters economic growth.
- **Trade diversion:** It occurs when trade shifts to group members at the expense of trade with nonmembers, even though nonmember companies may be more efficient in the absence of trade barriers. When trade barriers are removed and markets expand, dynamic effects of integration occur. Because of this expansion, businesses can increase production, resulting in lower unit costs—a phenomenon known as economies of scale.

Companies can produce at a lower cost, which is beneficial because they must become more efficient to survive. As the market grows, this could lead to increased trade between member countries (trade creation) or increased investment in the region by local or foreign companies. Enhanced Competition Another significant benefit of an RTA is increased efficiency as a result of increased competition. Many MNEs in Europe have attempted to grow through mergers and acquisitions to compete in larger markets. Due to competition from Canadian and American firms, Mexican companies were forced to become more competitive following the passage of NAFTA. This could cause investment to shift from less efficient to more efficient companies, or it could cause existing companies to become more efficient, (Daniels et al., 2022).

Summary

In this chapter, we examined the historical development of regionalism, emphasizing India's dedication to and active role in regional economic cooperation. The topic of GATT was then brought up, with special attention paid to its non-discriminatory principles as stated in Articles I and III. Examined was the historical shift from GATT to WTO, taking into account both positive and negative aspects. A thorough grasp of the global trade environment was made possible by a review of trade policies, which included both protectionism and liberalism, as well as an outline of the WTO. We further investigated tariffs and non-tariff barriers, categorizing the various kinds. To prepare for the upcoming chapter, which will explore the intricacies of economic integration, the chapter ended by looking at the static and dynamic effects of trade.

2 Economic Integration – Regional Trade Agreements and its Indicators

This chapter aims to provide a comprehensive understanding of economic integration, delineating its various forms and exploring the role of macroeconomic indicators in assessing integration levels. By examining the types of economic integration, including free trade areas, customs unions, common markets, and the intricacies of Regional Trade Agreements (RTAs) as governed by WTO rules, the chapter aims to elucidate the progressive nature of integration efforts. Furthermore, it aims to highlight the significance of macroeconomic indicators in evaluating the effectiveness and impact of integration initiatives, particularly in the context of regional trade agreements.

2.1 Economic Integration

(Balassa, 2011) says, *"Economic Integration as a process and as a state of affairs"*. When viewed as a dynamic process, economic integration entails the implementation of policies intended to eradicate discrimination between economic entities that are located in different national states. If seen as a state of affairs, it can be exemplified by the lack of different types of economic discrimination between countries.

Also (Balassa, 2011) tells us that economic integration can be differentiated in terms of Cooperation & Integration.

In terms of **Cooperation**:

- Measures intended to reduce discrimination.
- Concerns about trade agreements on a global scale.
- Centered on eliminating biased actions.

Cooperation in economic integration involves concerted efforts to reduce discriminatory practices, address global trade concerns, and eliminate biased actions. By implementing measures aimed at fostering fair and equitable trade relations, countries work together to create a more level playing field for all participants, promoting mutual growth and prosperity.

In terms of **Integration:**

- The primary feature is the elimination of discrimination within a particular field.
- Includes policies aimed at preventing certain types of discrimination.
- Includes actions like removing trade restrictions.

Integration in economic terms focuses on eliminating discrimination within specific sectors or fields by implementing policies that prevent various forms of biased actions. This entails the removal of trade restrictions, such as tariffs and quotas, and the adoption of measures to promote a more open and inclusive economic environment. Through concrete actions aimed at removing trade barriers, countries strive to enhance efficiency, competitiveness, and overall economic growth.

Furthermore, Economic Integration has several degrees of Integration. They are…

1. Preferential Trade Agreement
2. Free Trade Agreement
3. Customs Union
4. Common Market
5. An Economic Union
6. A Complete Economic Integration / Supra-National Union

2.1.1 Preferential Trade Agreements

According to (Avis, 2022), A Preferential Trade Agreement (PTA) establishes a Preferential Trade Area (PTA) among participating countries, granting certain advantages and privileges to goods originating from those countries. These agreements aim to promote trade and economic cooperation by offering preferential treatment, such as reduced tariffs or quotas, to member countries within the agreement. By providing preferential access to each other's markets, PTAs encourage increased trade flows among member nations, leading to greater market access and expanded opportunities for exporters. PTAs are often used by countries as a stepping stone towards deeper forms of economic integration, such as Free Trade Agreements (FTAs) or customs unions.

In the preceding chapter, we explored India's involvement in the Asia Pacific Trade Agreement (APTA), formerly known as the Bangkok Agreement, as part of its engagement in preferential trade agreements (PTAs). Facilitated by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), this initiative aims to bolster trade expansion among developing nations in the Asia-Pacific region through the exchange of tariff concessions. India's membership in APTA, alongside countries like China, Bangladesh, Lao PDR, Republic of Korea, and Sri Lanka, underscores its commitment to fostering trade relations and regional economic integration across the Asia Pacific, (India, 2014).

2.1.2 Free Trade Area

Considered a second level of Economic Integration, Free Trade Agreement (FTA) constitutes a formal treaty between two or more countries, stipulating the removal of tariffs on goods originating from member countries, while tariffs on trade with non-member countries remain in place. Essentially, FTAs aim to promote trade liberalization among participating nations by facilitating the unrestricted movement of goods within the agreement. By eliminating tariffs on intra-group trade, FTAs foster increased market access, enhance competitiveness, and stimulate economic growth for member countries.

The main distinction between a PTA and an FTA lies in the scope of tariff elimination. Preferential Trade Agreements (PTAs) offer preferential treatment to goods from member countries but may retain tariffs on some products, whereas Free Trade Agreements (FTAs) ensure comprehensive tariff elimination on all goods produced within member countries. Consequently, FTAs represent a deeper form of economic integration, fostering a more liberalized trading environment by removing all barriers to intra-group trade, (Athukorala, 2020).

India signed Free Trade Agreements (FTAs) with the Republic of Korea and Japan as a Comprehensive Economic Partnership Agreement (CEPA) and the aspects of the Agreement can be elaborated in Chapters 4 & 5.

2.1.3 Customs Union

One of the fundamental forms of economic integration is the customs union, as defined by the General Agreement on Tariffs and Trade. A customs union requires the elimination of substantially all tariffs and other trade barriers among participating countries. Additionally, it necessitates the establishment of uniform tariffs and regulations on foreign trade with nonparticipating economies. This distinguishes it from a Free Trade Agreement (FTA), where tariffs are eliminated on goods traded among member countries but each country maintains its external tariffs on imports from non-member countries. In contrast, a customs union involves a unified external trade policy, with all member countries applying the same tariffs and regulations to trade with external partners, (Balassa, 2011).

While India has entered into Preferential Trade Agreements (PTAs) and Free Trade Agreements (FTAs) with various countries, it has not joined any Customs Union.

2.1.4 Common Market

A common market, a more advanced form of economic integration, encompasses a customs union's features while permitting the free movement of labor and capital among member states. In a common market, not only are tariffs and trade barriers eliminated within the regional partnership, but there's also a commitment to facilitating the unrestricted movement of factors of production across borders.

This entails collaborative efforts among governments to harmonize policies and regulations across all countries within the common market, ensuring consistent treatment for labor, capital, and goods and services. In essence, a common market goes beyond the trade-focused objectives of a customs union by fostering deeper integration through the free mobility of factors of production, leading to increased economic cooperation and efficiency within the region, (Ravenhill, 2017).

Similar to the Customs Union, India has not joined any common market arrangement, however, it has engaged in targeted agreements such as the Partial Scope Agreement (PSA) with MERCOSUR, a Common Market encompassing Argentina, Brazil, Paraguay, and Uruguay in the South American region, (Mcommerce, 2024).

2.1.5 An Economic Union

An economic union takes integration further than a common market. It's not just about removing barriers to trade and the movement of factors like labor and capital. It also involves aligning economic policies among member states to reduce differences that could lead to unfair advantages. This alignment covers areas like money, taxes, and social policies. The goal is to create a more unified economic environment within the union, making trade and the movement of resources easier. Ultimately, the aim is to level the playing field for all members and promote greater economic harmony and cooperation.

The East African Community (EAC) is an example of an Economic Union. The EAC is a regional intergovernmental organization composed of six countries in the African Great Lakes region, namely Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. Similar to the EU, the EAC aims to promote economic integration among its member states through the free movement of goods, services, capital, and people within the region, (Razin a Sadka, 2021).

2.1.6 A Complete Economic Integration

The final level of Integration, Total economic integration represents the highest level of integration among nations, necessitating the unification of various policy domains, including monetary, fiscal, social, and countercyclical policies. This level of integration requires the establishment of a supra-national authority with the power to make binding decisions for member states.

In contrast, an Economic Union encompasses not only the unification of policies but also the harmonization of national economic policies to eliminate discrimination resulting from disparities in these policies. While both total economic integration and an Economic Union aim to create a seamless economic environment among member states, an Economic Union goes a step further by promoting greater policy harmonization to ensure a more cohesive economic framework across participating nations.

A perfect example of complete economic integration can be seen in the European Union (EU). The EU represents one of the world's most advanced forms of economic integration. It has established a single market where goods, services, capital, and labor can move freely across member states. The EU has also implemented a common currency, the Euro, in many of its member countries, further enhancing economic integration, (Razin a Sadka, 2021).

As we discussed Economic Integration and its types, it's important to know about the Regional Trade Agreements (RTAs) and their alignment with the goals of integration. Both RTAs and Economic Integration initiatives aim to strengthen economic connections, boost trade, and foster growth within specific regions or among participating nations.

2.2 Regional Trade Agreements

Regional Trade Agreements (RTAs), as defined by (Silva a Tenreyro, 2006), are treaties established between two or more countries within a specific geographic area, to reduce trade barriers and foster economic cooperation. These agreements address various trade-related aspects, including tariff reductions, customs procedures, and regulatory alignment, all aimed at facilitating smoother trade flows within the region. (WTO, 2024) states that RTAs have witnessed a significant increase in number and scope over time, with 371 RTAs in force as of 1st May 2024.

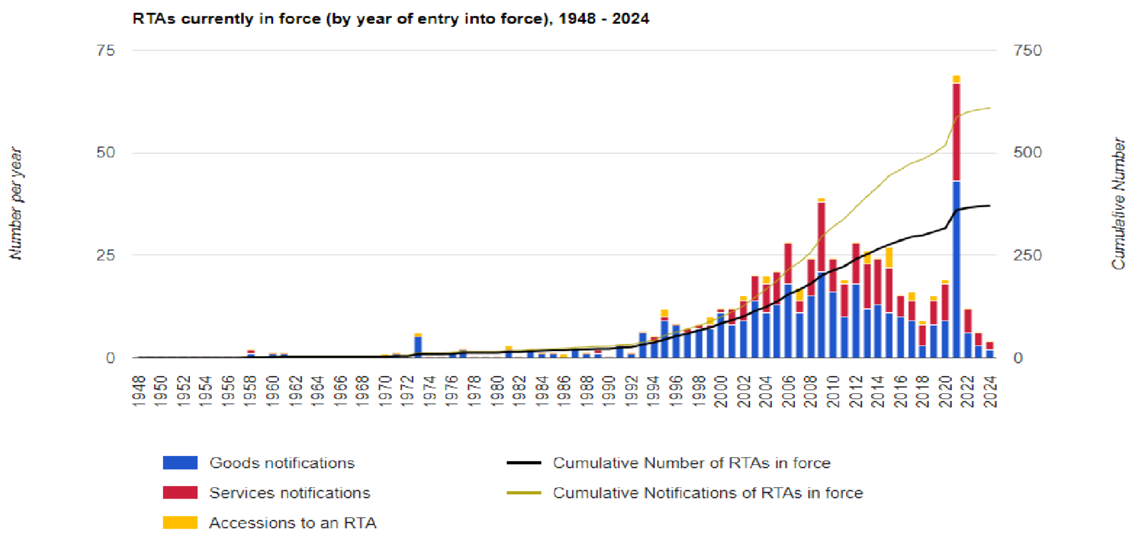

Figure 2: *Current Regional Trade Agreements in force*

Source: (WTO, 2024) – World Trade Organization, Regional Trade Agreements Database.

(WTO, 1994b) created rules for Regional Trade Agreements which encompass several key provisions such as.,

- **GATT Article XXIV & Ad Article XXIV:**

  Article XXIV of the General Agreement on Tariffs and Trade (GATT) delineates the regulations governing regional trade agreements (RTAs) between contracting parties. It defines customs territories and permits the establishment of customs unions or free-trade areas under certain conditions to uphold equitable trade practices. These conditions involve ensuring preferences within RTAs do not disrupt fair trade and notifying the World Trade Organization (WTO) of proposed RTAs for assessment and recommendations. Paragraph 9 emphasizes maintaining preferences within RTAs while allowing for adjustments through negotiations with affected parties. Additionally, Paragraph 11 acknowledges exceptions for special arrangements between India and Pakistan.

  The Ad Article XXIV provides guidance on re-exported products within RTAs and allows flexibility for measures between India and Pakistan to facilitate mutual trade relations. These regulations promote transparency, fairness, and consistency in the formation and operation of RTAs among WTO members.

- **Enabling Clause for developing countries:**

  The Multilateral Trade Negotiations led to the decision by the CONTRACTING PARTIES to allow differential and more favorable treatment for developing countries. This treatment applies to various aspects, including preferential tariff treatment, non-tariff measures, regional arrangements among less-developed countries, and special treatment for the least developed countries. Such treatment is intended to promote trade for developing countries without hindering other contracting parties' trade.

  It's stipulated that developed countries do not expect reciprocity for their commitments to reduce trade barriers, considering the differing development, financial, and trade needs of developing countries. The developed countries are urged to exercise restraint in seeking concessions from least-developed countries. Collaboration among contracting parties is encouraged to review the effectiveness of these provisions, with a focus on meeting the development needs of developing countries and the objectives of the General Agreement, (WTO, 1979).

- **General Agreement on Trade in Services, Article V: Economic Integration:**

  Article V of the General Agreement on Trade in Services (GATS) allows Members to participate in agreements liberalizing trade in services, provided such agreements have substantial sectoral coverage and eliminate discrimination among parties. Developing countries enjoy flexibility in meeting conditions based on their development level. Enlargement or modification of agreements must comply with Members' schedules and require a 90-day notice. Service suppliers of Members party to such agreements receive treatment under the agreement if they operate within its territories. Members must notify the Council for Trade in Services of agreements and their modifications, with periodic implementation reports. The Council may establish working parties to assess agreement consistency and make recommendations. Members cannot seek compensation for trade benefits accruing to others from these agreements, (WTO, 1994a).

- **Transparency Mechanism for Regional Trade Agreements:**

  The transparency mechanism for Regional Trade Agreements (RTAs) in the World Trade Organization (WTO) aims to enhance transparency and understanding of RTAs for all Members. It involves timely notification of changes in RTA implementation, submission of reports on liberalization commitments, and opportunities for discussion. The mechanism is overseen by the Committee on Regional Trade Agreements (CRTA) and the Committee on Trade and Development (CTD), with technical support available for developing countries. Provisions include maintaining an electronic database on RTAs, provisional application to all RTAs with varying procedures based on notification status, and a review process for potential modification based on operational experience, potentially leading to a permanent mechanism, (WTO, 2006).

- **The Doha Negotiation:**

  The Doha Declaration tasks negotiators with enhancing disciplines and procedures under existing WTO provisions concerning regional trade agreements (RTAs), with a focus on developmental aspects. In response, efforts have concentrated on bolstering transparency within RTAs. This led to the creation of a Transparency Mechanism for Regional Trade Agreements, provisionally adopted by the General Council in December 2006. This mechanism aims to promote openness and accessibility of information regarding RTAs, facilitating a clearer understanding of their implications and effects. By fostering transparency, WTO members seek to ensure that RTAs contribute positively to global trade and development while minimizing any adverse consequences and ensuring coherence with broader WTO principles and objectives, (WTO, 2001).

2.2.1 Contribution of Regional Trade Agreements to Economic Integration

Regional Trade Agreements (RTAs) are pivotal in advancing economic integration among nations, with the European Union (EU) emerging as a premier exemplar of successful regional integration, (Stack a Bliss, 2020). These agreements not only unlock economic prospects but also propel trade liberalization and growth, (Chen, 2020).

RTAs are crafted to augment trade and investment within member countries, albeit with varying impacts on trade dynamics between member and non-member states, including both trade creation and diversion effects, (Lopez a Carvajal, 2020). The essence of these accords lies in deepening economic bonds, leading to heightened trade volumes and interdependence, (Gonuguntla, 2017).

RTAs encompass diverse forms, spanning from free trade areas to comprehensive economic and monetary unions, signifying different levels of integration, (Jošić et al., 2019). The evolution of RTAs, exemplified by those in the Asia-Pacific region, underscores their potent role in propelling regional economic integration, propelled by economic expansion and trade liberalization, (Chen, 2020). As crucial instruments for expanding foreign trade relations and fostering global economic development, RTAs wield significant influence, (Esina et al., 2018).

Through these agreements, nations forge closer economic ties, stimulating cross-border transactions and enhancing overall economic cooperation and prosperity.

After highlighting the importance of RTAs in boosting economic integration, let's explore the different kinds of agreements countries make to strengthen their economic connections.

2.2.2 Types of Regional Trade Agreements:

RTAs can be divided based on the number of partners involved, such as in terms of…

- **Bilateralism:** Bilateralism is a foundational concept in international relations, denoting agreements between two countries or entities aimed at enhancing trade and economic cooperation. These agreements are often characterized by direct negotiations between the involved parties, leading to the establishment of mutually agreed-upon terms and conditions.

  In terms of Regional Trade Agreements (RTAs), Bilateral RTAs, which only involve two parties, are one way that bilateralism is expressed. The main goals of these agreements are to address particular trade concerns and promote economic cooperation amongst the member nations. A more specialized and focused approach to negotiations and implementation, catering to the particular requirements and priorities of the participating countries, is made possible by bilateral RTAs.

  Bilateral agreements offer several distinctive characteristics. Firstly, they provide a platform for direct engagement between the two parties, facilitating open dialogue and efficient decision-making processes. Secondly, bilateral agreements afford flexibility, enabling negotiators to address specific trade concerns and customize provisions to suit the interests of both nations involved. Additionally, bilateral RTAs are often perceived as more accessible and manageable compared to larger multilateral agreements, as they involve a limited number of stakeholders and may lead to quicker resolution of issues. Overall, bilateralism in RTAs serves as a pragmatic and effective means of promoting trade liberalization and fostering mutually beneficial economic relationships between nations.

- **Multilateralism:** Multilateralism embodies the principle of cooperation among multiple parties, typically nations, to address common challenges or pursue shared objectives. In the context of trade, it involves negotiations and agreements that include numerous countries, aiming to establish comprehensive rules and standards governing international trade relations.

  In terms of Regional Trade Agreements (RTAs), Multilateral RTAs bring together several countries within a specific geographic region to collaboratively establish trade frameworks, reduce trade barriers, and foster economic integration. These agreements seek to create a level playing field for all participating nations, promoting fair and equitable trade practices while advancing regional economic development.

  Multilateral agreements are characterized by their inclusivity, involving a wide array of stakeholders with diverse interests and priorities. The negotiation and implementation of such agreements are inherently complex, requiring extensive deliberation and compromise among participating countries to reach a consensus on trade rules and regulations. Moreover, multilateral agreements aim to harmonize trade policies and regulations among nations, facilitating seamless trade relations and fostering greater economic cooperation on a regional or global scale, (Aggarwal, 2023).

2.3 Indicators of Economic Integration

Indicators of economic integration serve as indispensable metrics for gauging the advancement and consequences of economic integration endeavors. By offering quantifiable benchmarks, these indicators enable the assessment of the extent of integration attained among economies, thereby enhancing comprehension of the economic ties and mutual reliance within a region or across nations. They establish a vital link with economic integration by furnishing tangible measures to monitor progress, discern trends, and evaluate the effectiveness of integration strategies, thereby aiding policymakers and stakeholders in making informed decisions and fostering deeper regional and international economic collaboration.

In this paper, we are going to utilize macroeconomic indicators as key metrics to evaluate and analyze indicators of economic integration. These indicators provide a comprehensive understanding of the economic performance, dynamics, and interdependencies within integrated regions or among countries participating in integration agreements.

The most important macroeconomic indicators that are used are…

2.3.1 Gross Domestic Product (GDP)

According to the Bureau of Economic Analysis (BEA), GDP is a key measure of a nation's economic output, representing the total value of goods and services produced within its borders. It reflects consumer spending, business investment, trade balance, and government expenditure, offering insights into economic performance and trends. GDP serves as a vital tool for policymakers, businesses, and investors to gauge the health and trajectory of an economy, guiding decision-making and comparisons across countries and periods, (Dynan a Sheiner, 2018).

2.3.2 Foreign Direct Investment (FDI)

According to (Kostoulis, 2023), A foreign direct investment (FDI) occurs when a company establishes a physical presence, such as acquiring property and equipment, in a foreign country distinct from its home base. However, for an FDI to yield favorable returns, the company must discern which foreign investments offer promising prospects. This entails evaluating the unique conditions and challenges present in each host country. By carefully assessing factors like market potential, regulatory environment, and economic stability, companies can determine the viability of their investments and mitigate risks associated with imperfect markets and varying business climates.

2.3.3 Trade Balances

(UNCTAD, 2016) defines, Trade balances which represent the disparity between a nation's exports and imports of goods and services, are pivotal macroeconomic indicators for assessing economic integration. Calculated as a percentage of total global imbalances, they illuminate the distribution of trade imbalances among countries. Meanwhile, the foreign trade balance-to-GDP ratio offers insight into the magnitude of trade imbalances relative to economic size, delineating the trade performance of nations in the context of their economies. This analytical framework aids in gauging the role of trade balances in fostering economic integration and elucidates a country's positioning within the global market landscape.

2.3.4 Inflation

(Oner, 2021), states that Inflation gauges the extent to which a defined basket of goods and services has increased in price over a specific period, typically annually. This encompasses increases in prices across various sectors, such as essential commodities like food, and essential services like utilities such as electricity or gas. Essentially, it reflects the erosion of purchasing power over time due to escalating costs. By capturing the broader economic trend of rising prices, inflation serves as a critical macroeconomic indicator, offering insights into the health and stability of an economy, influencing monetary policy decisions, and impacting investment and consumption behavior.

2.3.5 Exchange Rate

The value of one currency relative to another, or exchange rate, affects how much goods and services cost in international trade. Exchange rate fluctuations affect a number of economic factors, including inflation, trade competitiveness, investment choices, and general economic stability. Trade balances may be impacted by a strong exchange rate that makes imports more affordable but exports more expensive. Conversely, a weak exchange rate can increase exports but drive-up import prices. Because it affects investment flows, price levels, and overall economic performance, exchange rate stability is essential for economic growth, (Antwi et al., 2020).

Summary:

This chapter provides a detailed exploration of economic integration, examining its diverse forms such as free trade areas, customs unions, and common markets. It delves into the intricacies of Regional Trade Agreements (RTAs) governed by WTO rules, elucidating their progressive nature in fostering integration. Additionally, the chapter underscores the importance of macroeconomic indicators in assessing integration levels and evaluating the effectiveness of integration initiatives. By shedding light on the role of these indicators, particularly within the context of regional trade agreements, the chapter offers insights into the dynamic landscape of economic integration and its impact on global trade relations. Looking ahead, the next chapter will focus on India's macroeconomic indicators, providing a PEST analysis and examining their relevance in the context of regional trade agreements and ongoing economic integration efforts.

3 India and its Macroeconomic Indicators

This chapter's objective is to present a thorough analysis of India's economic environment by looking at important macroeconomic indicators and conducting a PEST analysis. This chapter aims to provide insights into the opportunities and challenges present in the Indian market by examining the political, economic, social, and technological factors that shape India's business environment and by analyzing trends in indicators like GDP, foreign direct investment, inflation, trade balances, and exchange rates. This chapter helps to obtain a better understanding of India's macroeconomic dynamics and how they affect investors, companies, and policymakers by reading this analysis.

3.1 PEST Analysis

PEST analysis serves as a strategic instrument employed by organizations to assess the external macro-environmental factors that may influence their operations. The acronym PEST represents Political, Economic, Social, and Technological factors. Through the examination of these four dimensions, businesses can pinpoint potential opportunities and threats, foresee changes, and adapt their strategies to uphold or enhance their competitive standing, (Sammut-Bonnici a Galea, 2015).

India, a vibrant secular democracy steeped in millennia of history and culture, presents a captivating mosaic of economic, social, and political intricacies. Renowned for its ancient civilization and diverse populace, India has evolved into a dynamic modern nation since gaining independence. From achieving self-sufficiency in agriculture to pioneering advancements in space exploration, India's journey reflects its commitment to progress and innovation.

At the heart of India's identity lies its democratic ethos, enshrined in a constitution that champions equality, justice, and liberty for all citizens. As the world's largest democracy, India's political landscape is a vibrant tapestry of ideologies and languages, where spirited debates shape the nation's destiny. The resilience and entrepreneurial spirit of its people have propelled India onto the global stage as a center of innovation and entrepreneurship.

Geographically, India's vast expanse encompasses majestic mountain ranges, lush tropical forests, and a sprawling coastline that embraces the Arabian Sea and the

Bay of Bengal. This strategic location positions India as a pivotal maritime nation, facilitating trade and connectivity between East and West. As India pursues economic reforms and infrastructure development, its geographic advantages play a pivotal role in shaping its ascent as a global economic powerhouse.

Yet, amidst rapid urbanization – 36.3% of the population (Worldometer, 2024), and economic growth, India confronts pressing challenges of sustainable development, social disparity, and environmental conservation. The pursuit of inclusive growth and equitable opportunities underscores discussions on governance, education, healthcare, and social welfare. Guided by ancient wisdom, India navigates the complexities of a rapidly changing world, advocating for progress anchored in compassion, sustainability, and reverence for diversity, (Blom Hansen, 2023) (National Portal of India, 2022).

3.1.1 Political Analysis of India

India's political landscape significantly influences international business dynamics and trade relationships, shaping the country's economic trajectory and global standing. The government's policies and actions have a direct impact on business operations, foreign investments, and diplomatic ties, making it essential to analyze the political landscape within the context of international business.

In terms of business, the Indian government has made efforts to attract foreign investors through initiatives like "Make in India."

However, challenges such as bureaucratic hurdles, administrative barriers, and market entry restrictions persist, hindering the ease of doing business for both domestic and international companies.

Corruption remains a significant issue (93rd rank in Corruption Perception Index as of 2023) – (Transparency International, 2024), affecting transparency and investor confidence, and addressing it is crucial for fostering a more conducive business environment.

On the international front, India's relationships with neighboring countries and global powers play a vital role in shaping its foreign policy and economic engagements. Tensions with Pakistan and China impact regional stability and hinder multilateral cooperation in South Asia, affecting cross-border trade and investment flows.

India's efforts to counterbalance China's influence in the region have led to strategic partnerships with countries like the United States and Japan, opening avenues for enhanced trade and investment cooperation. However, maintaining a delicate balance between regional dynamics and global alliances is essential for India's diplomatic success and its position in international trade networks.

Overall, navigating the intersection of politics, business, and international relations is a complex challenge for India, requiring strategic decision-making, effective governance, and proactive engagement with stakeholders at home and abroad to foster a conducive environment for international business and trade, (BTI, 2024).

3.1.2 Economical Analysis of India:

India, one of the world's largest economies by nominal GDP, boasted a GDP of approximately $3.42 trillion in 2022 (GDP per Capita - $2410.9) (World Bank Open Data, 2022), cementing its position as a major player in the global economic landscape. However, recent economic indicators suggest a slowdown, with weakening consumer demand and significant concerns among citizens. The repercussions of recent lockdowns were severe, resulting in a staggering job loss of around 122 million people.

India's corporate tax rate stands at 34.94% (pwc, 2023), though the country has witnessed frequent fluctuations in corporate tax rates over the years. Despite economic challenges, India remains a powerhouse in various sectors, including agriculture and technology. With over 100 unicorns valued at a total of $332.7 billion, the country's startup ecosystem continues to thrive, (IBEF, 2024c).

In terms of trade, India holds a significant position. The country exports various goods like petroleum products, jewelry, pharmaceuticals, and machinery. Conversely, it imports items such as crude petroleum, gold, and electronic goods. India's global economic influence has been strengthened by its participation in numerous free trade agreements with trading partners.

India's domestic market presents vast opportunities for local and international organizations, particularly in sectors like information technology, telecommunications, healthcare, retail, and infrastructure. The country's abundance of affordable labor is a significant draw for multinational companies, driving outsourcing operations to India.

According to (GlobalData, 2024), India's economic growth is forecast to expand by 6.7% in 2022 and an annual average growth rate of 5.6% during 2023–24.

Looking ahead, India's economic potential remains promising, with projections suggesting it could become one of the top three global economic powerhouses within the next decade or so. The availability of accessible and affordable labor further cements India's position as an attractive destination for businesses seeking growth and expansion opportunities, (Rahman, 2018). The analysis of macroeconomic Indicators is followed below.

- **Gross Domestic Product in (Current US$) – India:**

Figure 3: *GDP (current US$) – India*

Source: (World Bank Open Data, 2022).

The Gross Domestic Product (GDP) of India, measured in current US dollars, reflects the country's economic output over time. From 2010 to 2022, India's GDP exhibited a generally upward trend, indicating overall economic expansion. Notably, the GDP experienced robust growth during this period, with a significant increase observed from 2014 onwards. However, there were fluctuations in growth rates, influenced by both internal and external factors. The years 2016 and 2017 witnessed particularly strong growth, driven by factors such as increased public and private investment.

The COVID-19 pandemic in 2020 caused economic difficulties for India, which led to a brief decline in GDP. But the economy quickly recovered in the years that followed, and by 2021, GDP had surpassed pre-pandemic levels. In 2022, India's nominal GDP grew to $3.42 trillion, making it the world's fifth-largest economy. This was a major milestone. With the help of ongoing economic reforms, the expansion of the digital economy, and infrastructure development, India's GDP is expected to continue growing in the coming years. To guarantee inclusive and sustainable growth in the future, structural issues like unemployment and income inequality must be addressed.

- **Foreign Direct Investment (FDI), net inflows (% of GDP) – India:**

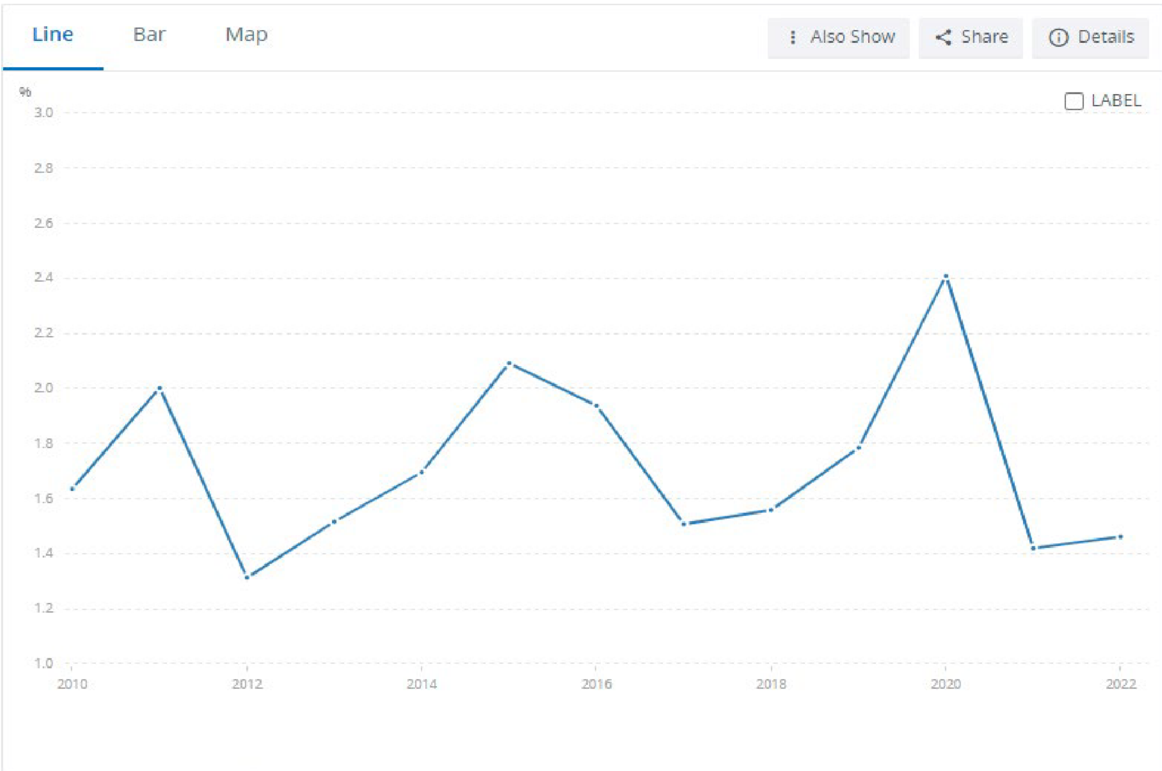

Figure 4: *FDI, net inflows (% of GDP) – India*

Source: (World Bank Open Data, 2022).

Foreign Direct Investment (FDI) as a percentage of GDP reflects the extent of foreign capital inflows into India's economy relative to its overall economic output. India's FDI landscape has surged due to favorable government policies. Key measures include raising the defense sector's FDI limit to 74%, easing scrutiny on FDI from neighboring countries, and introducing initiatives like PM Gati Shakti for streamlined processes. The Space Activity Bill, anticipated in 2022, will further define FDI regulations in the space sector. Bilateral agreements, such as with the UK, aim to boost investment. Recent amendments allowing 100% FDI in telecom and raising the FDI limit in insurance signify ongoing reforms. Flexible labor laws and SEZs with tax exemptions further enhance India's attractiveness for FDI, (Advocates & Attorneys, 2023).

India's FDI as a percentage of GDP has exhibited fluctuations over the years, generally trending upwards from 2010 to 2015, indicating a growing share of foreign investment relative to the country's GDP. The year 2020 witnessed significant increases in FDI inflows, signaling robust investor confidence, but 2021 saw a slight downturn, likely attributed to pandemic-induced uncertainties. Despite this, India maintained a stable FDI inflow as a percentage of GDP in 2022 at 1.47%, with a total FDI inflow of 49.35 Billion USD, (UNCTAD, 2023). This percentage represents the proportion of foreign investment relative to the size of India's economy. Sustaining and augmenting FDI inflows are crucial for India's economic growth, necessitating ongoing efforts to enhance the ease of doing business, liberalize investment policies, and bolster infrastructure, thereby fostering an attractive business environment for foreign investors.

- **Trade Balance:**

Table 1: *Trade Balance – India in USD Million*

Economy Label - Year (US$ in Mil)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
India - Exports	226351	302905	296828	314848	322694	267951	264542	299241	324778	324340	276410	395426	453400
India - Imports	350233	464462	489694	465397	462910	394131	361649	449925	514464	486059	373202	573092	720441
Trade Balances	-123882	-161557	-192866	-150549	-140216	-126180	-97107	-150684	-189686	-161719	-96792	-177666	-267041

Source: Own Computation - (UNCTADstat, 2023), TradeMerch Total, UNCTAD.

India's trade dynamics, reflected in its exports, imports, and trade balances, depict the country's engagement in global commerce and its economic competitiveness.

Over the years, India has demonstrated a steady increase in exports, showcasing its diverse export base and growing global demand for its goods. However, the surge in imports has also been notable, driven by domestic consumption and demand for capital and intermediate goods. The widening trade deficit in recent years highlights challenges such as reliance on imported commodities and structural constraints in export competitiveness.

In 2022, India faced a substantial merchandise trade deficit of $267.041 billion, highlighting the need for strategic trade rebalancing. In contrast, the services sector demonstrated robust performance, with a surplus of $145.29 billion, marking a 35.14% increase from the previous year, (IBEF, 2024d). This stark difference underscores the strength of India's services exports, which significantly outperform its merchandise sector, suggesting a pivotal role in enhancing India's global trade competitiveness and economic sustainability.

- **Inflation, Consumer Prices (annual %) – India:**

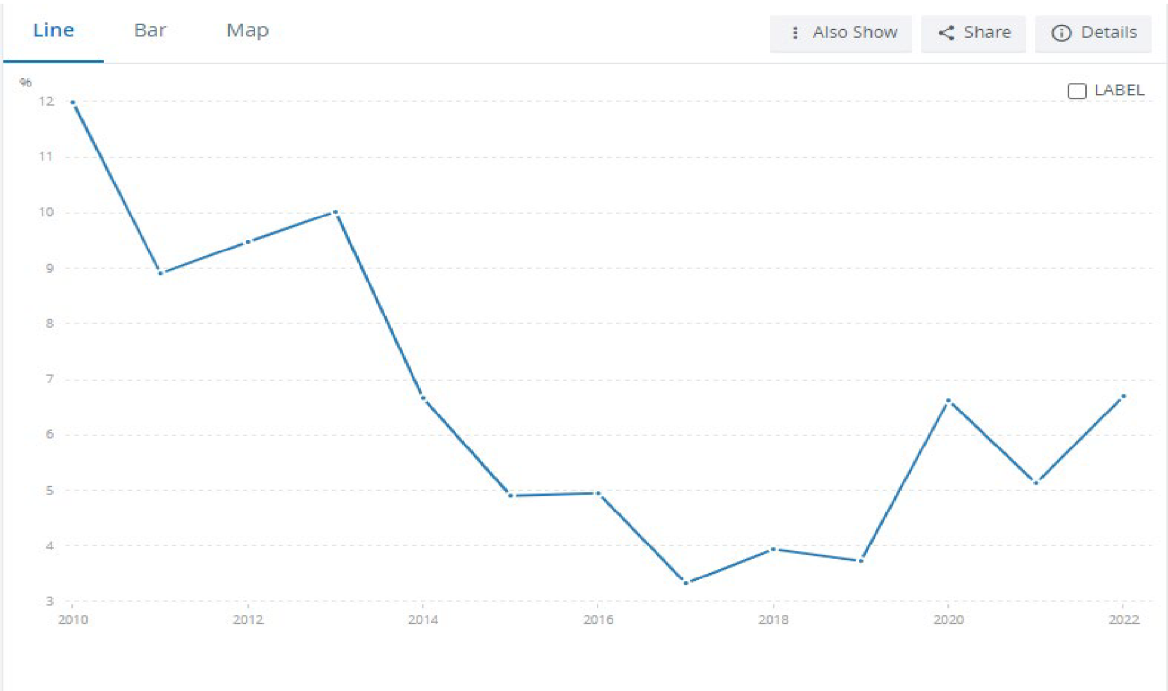

Figure 5: *Inflation, Consumer Prices (annual %) – India.*

Source: (World Bank Open Data, 2022).

Throughout 2010 to 2022, India's inflation, measured by consumer prices, has shown fluctuations but generally remained within manageable levels. High inflation rates observed in earlier years gradually tapered off, indicating successful monetary policy measures aimed at price stability. However, a notable uptick in inflation occurred in 2020, likely influenced by global supply chain disruptions and domestic factors such as the COVID-19 pandemic. The subsequent moderation in 2021 was encouraging, suggesting effective policy responses to address inflationary pressures.

However, a slight increase to 6.6% in 2022 warrants attention, indicating persistent inflationary risks. Managing inflation is crucial for safeguarding purchasing power, ensuring macroeconomic stability, and fostering sustainable economic growth. Continued vigilance and proactive monetary policy measures will be necessary to mitigate inflationary pressures and maintain price stability. Additionally, structural reforms addressing supply-side constraints, enhancing productivity, and promoting competition can complement monetary policy efforts in containing inflation over the long term.

- **Exchange Rate (Local Currency Unit per US$, period average) - India, United States:**

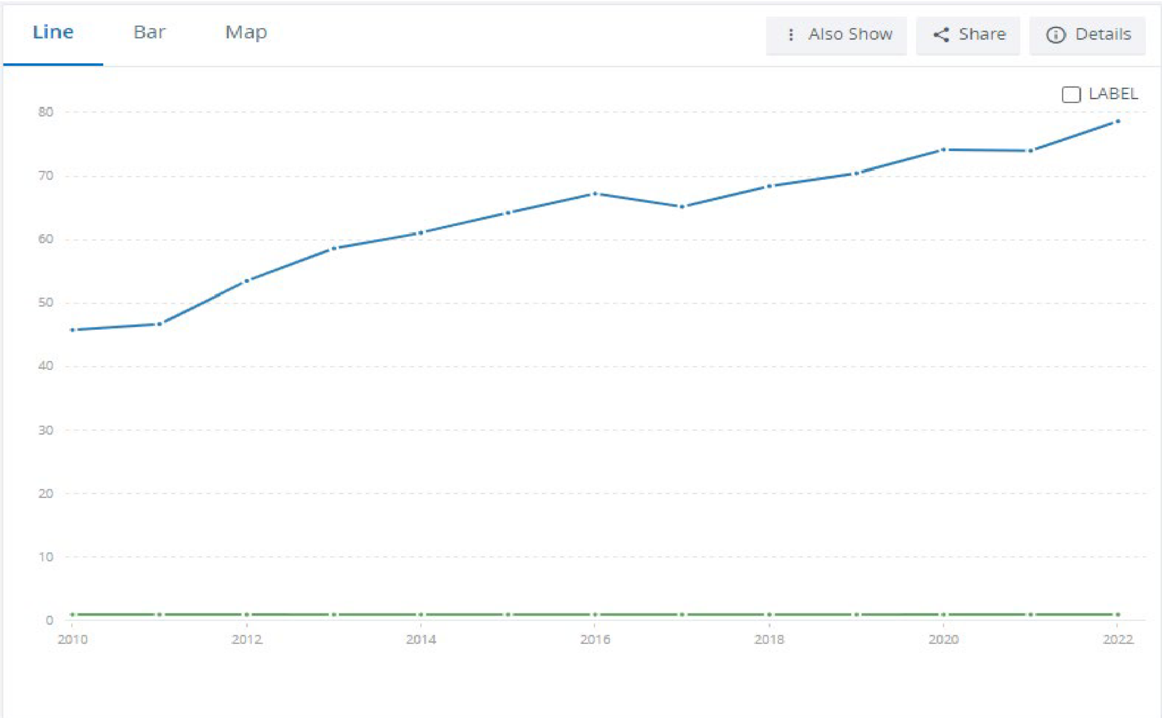

***Figure 6**: Exchange Rate (LCU per US$, period average) - India, United States*

Source: (World Bank Open Data, 2022).

The official exchange rate (LCU per US$, period average) reflects the value of the local currency, the Indian Rupee (INR), relative to the US dollar (USD) over a given period. In the case of India, this indicator demonstrates the fluctuations in the value of the rupee against the dollar from 2010 to 2022. A higher exchange rate indicates that it takes more units of the local currency to purchase one US dollar, while a lower rate suggests the local currency has strengthened against the dollar.

In 2022, the average exchange rate was recorded at 78.60 INR, (current rate – 83.48 INR per USD). This figure indicates a continued weakening of the Indian rupee against the US dollar compared to previous years. Factors such as inflation, Increased Oil Prices, Low foreign exchange reserves, Demand for Gold, and the Monetary and Fiscal policy of the Reserve Bank of India (RBI) influence the exchange rates of India, (Asthana, 2020). A weaker rupee can impact imports by making them more expensive but may benefit exports by making them cheaper for foreign buyers. However, it could also lead to higher inflation and increased costs for imports, impacting the purchasing power of consumers and overall economic stability.

3.1.3 Social Analysis of India

According to the information from (Worldometer, 2024), India's vast consumer market, with a population exceeding 1.4 billion which covers 17.76% of the total world population, and a land area spanning over 3.287 million square kilometers 'sourced from (National Portal of India, 2022), and the statistics from the (International Labour Organization, 2012), states that India holds the largest youth population (808 Million or 66% of the total population) with a Median age of 28.2 years, (Worldometer, 2024), presents an unparalleled opportunity for multinational corporations seeking growth and expansion. The country's improving standard of living, coupled with a burgeoning middle class boasting significant disposable income, further amplifies its attractiveness as a market for multinational companies.

(Rahman, 2018) emphasizes that India's rich tapestry of culture, language, and religion adds to its allure as a melting pot of diversity and inclusivity. Communal harmony, a cornerstone of Indian society, underscores the country's strength in fostering unity amidst its diverse population. However, occasional tensions along ethnic lines highlight the need for continued efforts to promote social cohesion and understanding.

As a secular nation, India celebrates its diversity while upholding the principles of religious freedom and tolerance. Yet, challenges persist, with poverty remaining a pressing issue. Millions of Indians continue to live below the poverty line, grappling with daily existence on meager incomes of less than $2 a day (10.35% of the total population), Poverty and Inequality Platform - (World Bank, 2024). Moreover, disparities in wealth distribution underscore the need for concerted efforts to address socioeconomic inequalities and foster inclusive growth.

Despite these challenges, India's vibrant social fabric, cultural heritage, and spirit of resilience remain defining characteristics of its society. As the country continues on its path of progress and development, addressing social disparities and promoting inclusivity will be essential in ensuring a brighter and more equitable future for all.

3.1.4 Technological Analysis of India

(Rahman, 2018) states, that India's technological prowess stands as a beacon of progress and innovation, driving economic growth and transforming industries across the globe. With a robust IT infrastructure and a highly skilled workforce, India has emerged as a premier destination for tech giants like Facebook, Microsoft, Amazon, and Apple, who continue to invest billions in the country's burgeoning tech landscape.

(International Trade Administration, 2024), provides the necessary details about the importance of Information and Communication Technology (ICT) in the Indian economy. The ICT sector and the Digital Economy, contributing over 13 percent to India’s GDP, serve as major engines of economic growth, with ambitious targets set to propel the industry to $1 trillion by 2025. According to NASSCOM, India's technology industry is poised to surpass $245 billion in 2023, underpinned by robust growth across all subsectors, including IT services, software development, e-commerce, and more.

Bengaluru, Hyderabad, Chennai, and other major cities have emerged as bustling ICT hubs, fostering innovation and entrepreneurship in technology. With a well-organized distribution network and established global ICT distributors, India offers ample opportunities for companies to market their products and services effectively.

In telecommunications, India boasts the world's second-largest subscriber base, with over 1.2 billion wireless and fixed-line users. According to Deloitte, the widespread adoption of mobile technology has propelled India's mobile economy, with projections indicating a surge to 1 billion smartphones by 2026. Additionally, India's emergence as the second-largest manufacturer of mobile handsets underscores its growing prowess in the global tech arena.

The recent launch of 5G services marks a significant milestone in India's digital transformation journey, promising enhanced connectivity, improved network infrastructure, and widespread access to high-speed internet. With the fastest rollout of 5G globally, India is poised to lead the charge in embracing cutting-edge technology and driving digital inclusion on a massive scale.

Summary:

In this chapter, we conducted a thorough analysis of India's economic environment using a PEST analysis framework and an examination of key macroeconomic indicators. We explored the political landscape, highlighting the country's democratic governance and the impact of government policies on businesses and international relations. Additionally, we delved into the economic factors, discussing India's GDP growth trends, foreign direct investment inflows, inflation rates, and trade balances, among others. Furthermore, we analyzed the technological landscape, emphasizing India's information technology, telecommunications, and digital infrastructure advancements. Through this analysis, we gained a comprehensive view of India's economic landscape, highlighting opportunities and challenges for various stakeholders in the dynamic and evolving Indian market.

4 India – Japan Comprehensive Economic Partnership Agreement (CEPA)

The aim of this chapter is to provide a comprehensive understanding of the economic relationship between India and Japan, with a particular focus on the Comprehensive Economic Partnership Agreement (CEPA) and its implications. Starting with an overview of Japan and the historical context of bilateral relations, the chapter looks into the pre-CEPA era, highlighting key trade dynamics and investment patterns between the two countries. It explores the significance of the CEPA in facilitating tariff reduction and addressing non-tariff measures, thereby enhancing trade relations and promoting economic cooperation. The chapter also examines the impact of the agreement on import and export flows between India and Japan, shedding light on notable success stories of Indian companies in the Japanese market. Ultimately, the aim is to clarify the tangible benefits brought by the CEPA to India, paving the way for deeper strategic partnerships and mutual prosperity.

4.1 Japan

Japan, a captivating island nation in East Asia, boasts a unique blend of tradition and modernity that fascinates visitors worldwide. With a population of over 125 million people as of 2022 (World Bank Open Data, 2022), Japan is known for its rich cultural heritage, cutting-edge technology, and vibrant arts scene.

Japan's population is characterized by a high life expectancy and a low birth rate, leading to a rapidly aging society, (Bishop, 2012). This demographic trend poses challenges for the country's workforce and social welfare systems, prompting innovative solutions in areas such as robotics and healthcare.

Japan operates under a parliamentary system, with the Emperor symbolizing unity. Its government comprises three branches - executive, legislative, and judicial - working together to make decisions, ensure a balance of power, and protect fundamental human rights and peace. Japan's governance involves a unique blend of centralized and decentralized decision-making. While some aspects are highly centralized, such as setting overall frameworks, pricing, and benefits, others rely on local authorities for service utilization, (Shimizutani, 2014).

Japan stands as the third-largest economy in the world, driven by its innovative industrial output, competitiveness, and strong international trade relations. Despite limited natural resources, Japan excels in exporting products like general machinery, transport equipment, and electrical machinery. The Japanese Yen (1 USD = 154.547 JPY), Xe Currency Converter (Xe, 2024), the official currency, plays a significant role in the global foreign exchange market, reflecting Japan's economic prowess and stability.

Japan is renowned for its advancements in technology and innovation, with companies leading in sectors such as robotics, automotive manufacturing, and electronics. The country's commitment to research and development has positioned it as a global leader in technological innovation, (Japan Information & Culture Center, 2023).

Japan’s blend of tradition and innovation coupled with a strong economic foundation along with technological advancement, firmly establishes it as a global powerhouse.

4.2 India & Japan Before CEPA

Before the implementation of the India-Japan Comprehensive Economic Partnership Agreement (CEPA), the relationship between India and Japan was characterized by significant economic cooperation and strategic partnership. Here are some key aspects of their relationship...

Trade Relations: India and Japan had been steadily increasing their bilateral trade volumes. For example, in 2010, the total trade between India and Japan amounted to USD 10.9 billion. Japan was one of India's major trading partners, and both countries had expressed interest in further enhancing their trade relations.

Investment: Japan had been a significant source of foreign direct investment (FDI) for India. For instance, in the period leading up to the CEPA, Japanese FDI in India had been increasing steadily, with investments in sectors such as automotive, electronics, and infrastructure. The cumulative Japanese ODA loan commitment to India in 2010 was USD 41 billion.

Development Assistance: Japan has been providing Official Development Assistance (ODA) loans to India for various infrastructure projects. By 2010, around 58 projects were being implemented with Japanese loan assistance, with a loan amount committed of USD 15 billion. India had become the largest recipient of Japanese ODA loans, indicating the deepening economic ties between the two countries.

Strategic Partnership: India and Japan had also been strengthening their strategic partnership, focusing on areas such as defense cooperation, maritime security, and regional stability. The bilateral economic engagement was underpinned by a discourse on shared democratic values and common interests. This strategic alignment was further reinforced by the signing of the CEPA, which marked a milestone in their economic relationship, (Das, 2014).

Before the CEPA, India and Japan had a solid relationship built on economic cooperation, strategic alignment, and shared values. This laid the groundwork for even stronger collaboration under the comprehensive economic partnership agreement.

4.3 India – Japan CEPA

A bilateral trade agreement was signed in 2011 between Japan and India, known as the Comprehensive Economic Partnership Agreement (CEPA). The objective of this agreement is to foster trade and investment between the two nations as well as increase economic cooperation.

4.3.1 Overview:

The Comprehensive Economic Partnership Agreement (CEPA) between India and Japan was signed in February 2011 and implemented in August 2011. This agreement is one of the two Free Trade Agreements (FTA) that India has signed with OECD economies, (Mathur a Doley, 2022). The CEPA addresses a number of topics, including investment, intellectual property rights, trade in goods and services, and economic cooperation.

4.3.2 Tariff Reduction Included in CEPA:

- **Phased Reduction:** The CEPA between India and Japan outlines a structured approach to gradually reduce tariffs on various goods over specific periods, aiming to promote bilateral trade.
- **Immediate Reduction:** Upon the CEPA's implementation, India promptly reduced tariffs to 0% on 17.4% of tariff lines, showcasing a commitment to trade liberalization. In reciprocity, Japan immediately eliminated tariffs on 87% of its tariff lines, signaling a significant opening of its market to Indian goods.
- **Custom Duties Elimination:** The agreement provides a framework for the elimination of customs duties on traded goods, with specific timelines set for each category. Goods are classified into different groups, each with designated timelines for tariff elimination or reduction.
- **Targeted Sectors:** The CEPA identifies key sectors such as textiles, petroleum products, metals, electronics, and agricultural products for gradual tariff reduction over specified periods.
- **Long-term Vision:** Over the next decade, the CEPA aims to eliminate tariffs on more than 90% of goods traded between India and Japan, with specific sectors like auto parts, machinery, farm products, and fisheries targeted for tariff elimination.
- **Benefits:** The reduction in tariffs is expected to stimulate trade volumes, enhance competitiveness, and improve market access for businesses and consumers in both India and Japan, fostering a more favorable trading environment, (Varma a Gautam, 2017) (Khan, 2019).

4.3.3 Non-Tariff Measures mentioned in this CEPA:

- **Addressing Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Measures:**

  The India-Japan Comprehensive Economic Partnership Agreement (CEPA) aims to overcome non-tariff barriers that hinder trade between the two countries. It specifically targets Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) measures, which often pose challenges to exporters by imposing regulations related to product quality, safety, and health standards. By harmonizing regulations and standards, the CEPA seeks to streamline trade procedures and enhance transparency, predictability, and efficiency in the trading process.

- **Provisions for Environmental Protection and Confidentiality:**

  Furthermore, the CEPA includes provisions related to environmental protection and confidentiality clauses. These provisions are designed to address concerns regarding environmental sustainability and ensure the confidentiality of sensitive information shared between the two nations. By incorporating such provisions, the agreement aims to foster a conducive environment for trade and investment while upholding environmental standards and safeguarding proprietary information.

- **Dispute Resolution Mechanism:**

  To ensure fair and transparent dispute resolution, the CEPA establishes a mechanism for resolving disputes related to trade and investment. This mechanism allows parties to seek recourse through international bodies if they are dissatisfied with domestic arbitration processes. By providing a robust dispute resolution framework, the agreement instills confidence among investors and traders, thereby promoting greater certainty and stability in bilateral trade relations.

- **Performance Requirements and Investment Provisions:**

  The CEPA also prohibits the imposition of performance-related requirements on investors, such as export quotas or domestic content mandates. Additionally, it includes provisions to provide national treatment to Japanese investors in goods and market access. These investment provisions aim to facilitate cross-border investment flows and create a level playing field for investors from both countries.

- **Alignment with WTO Agreements and Exclusion of Sensitive Sectors:**

  In alignment with the World Trade Organization (WTO) Agreement on TBT and SPS measures, the CEPA establishes a dedicated sub-committee to address any issues that may arise in these areas. However, it is important to note that India has agreed to exclude certain sensitive sectors, such as the rice sector, from tariff relaxation under the agreement. This exclusion acknowledges the sensitivities of Japanese farmers and ensures that tariffs on rice imports into Japan are maintained, (Varma a Gautam, 2017) (Khan, 2019).

These developments deepen the economic ties between the two nations. Now, let's explore the top Imports and Exports by India to Japan.,

Table 2: *India's Top 10 Exports to Japan - Values in US$ Million*

S. No.	HS Code	Commodity	2021-2022	2022-2023
1	29	Organic Chemicals	696.05	734.18
2	3	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates.	433.24	443.76
3	84	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof.	478.85	430.77
4	87	Vehicles Other Than Railway Or Tramway Rolling Stock, And Parts And Accessories Thereof.	328.71	405.14
5	71	Natural Or Cultured Pearls,Precious Or Semiprecious Stones, Pre. Metals,Clad With Pre.Metal And Articles Thereof Imitation Jewellery; Coin.	394.43	351.29
6	27	Mineral Fuels, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes.	981.8	331.82
7	85	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers,And Parts.	516.53	322.24
8	76	Aluminium And Articles Thereof.	316.54	291.59
9	72	Iron And Steel	354.08	268.21
10	38	Miscellaneous Chemical Products.	242.44	244.57

Source: (Embassy of India Tokyo, Japan, 2024).

The import and export data in this thesis correspond to India's fiscal year, which runs from April 1 to March 31 of the subsequent year. The analysis consistently employs this timeframe to precisely represent the trade dynamics of India. When referring to specific years, such as 2022-2023, it denotes the period from 1st April 2022 to 31st March 2023.

Table 2 illustrates the top 10 commodities traded between India and Japan during the fiscal years 2021-2022 and 2022-2023. Organic Chemicals (HS Code 29) maintained its position as the most traded commodity, with a slight increase from $696.05 million to $734.18 million, followed by Fish and Crustaceans, Molluscs, and Other Aquatic Invertebrates (HS Code 3), which saw a marginal rise in trade value from $433.24 million to $443.76 million. Nuclear Reactors, Boilers, Machinery, and Mechanical Appliances (HS Code 84) experienced a decrease in trade value from $478.85 million to $430.77 million, while Vehicles Other Than Railway or Tramway Rolling Stock, and Parts and Accessories Thereof (HS Code 87) witnessed a significant increase from $328.71 million to $405.14 million.

India's exports to Japan encompass raw materials and intermediate products like mineral fuels, organic chemicals, and components for nuclear reactors and machinery, meeting Japan's industrial needs. Leveraging Japan's resource requirements, these exports contribute significantly to bilateral trade and support Japan's manufacturing and energy sectors.

Table 3: *India's Top 10 Imports from Japan - Values in US$ Million*

S. No.	HS Code	Commodity	2021-2022	2022-2023
1	84	Nuclear Reactors, Boilers, Machinery	2,702.62	2,864.64
2	28	Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals,	1,660.50	2,152.34
3	85	Electrical Machinery, Image And Sound Recorders And Reproducers,	1,317.65	1,739.59
4	72	Iron And Steel	1,011.55	1,390.06
5	74	Copper And Articles Thereof.	1,193.58	1,284.05
6	39	Plastic And Articles Thereof.	1,237.17	1218.56
7	29	Organic Chemicals	776.88	876.46
8	90	Optical, Photographic Cinematographic Measuring, Checking Precision, Medical Or Surgical Inst	699.54	742.65
9	87	Vehicles Other Than Railway Or Tramway Rolling Stock, And Parts	762.9	734.22
10	71	Natural Or Cultured Pearls,Precious Or Semiprecious Stones, Imitation Jewellery; Coin.	169.87	434.34

Source: (Embassy of India Tokyo, Japan, 2024).

Table 3 displays the top 10 commodities traded between India and Japan during the fiscal years 2021-2022 and 2022-2023. Notably, Nuclear Reactors, Boilers, and Machinery (HS Code 84) remained the most traded commodity, significantly increasing from $2,702.62 million to $2,864.64 million. This underscores Japan's technological prowess and manufacturing capabilities, as it exports advanced machinery and equipment to India.

Following closely, Organic or Inorganic Compounds of Precious Metals and Rare-Earth Metals (HS Code 28) witnessed a substantial rise in trade value from $1,660.50 million to $2,152.34 million, reflecting Japan's dominance in high-value-added manufacturing. Additionally, Electrical Machinery, Image and Sound Recorders, and Reproducers (HS Code 85) saw a notable increase in trade value from $1,317.65 million to $1,739.59 million, highlighting Japan's strength in electronics and consumer goods. Japan's exports to India encompass a broad spectrum of finished goods, ranging from advanced machinery, automotive components, and precision electronics to high-tech products. These cater to India's demand for advanced technology and equipment, promoting trade and economic ties between the two countries.

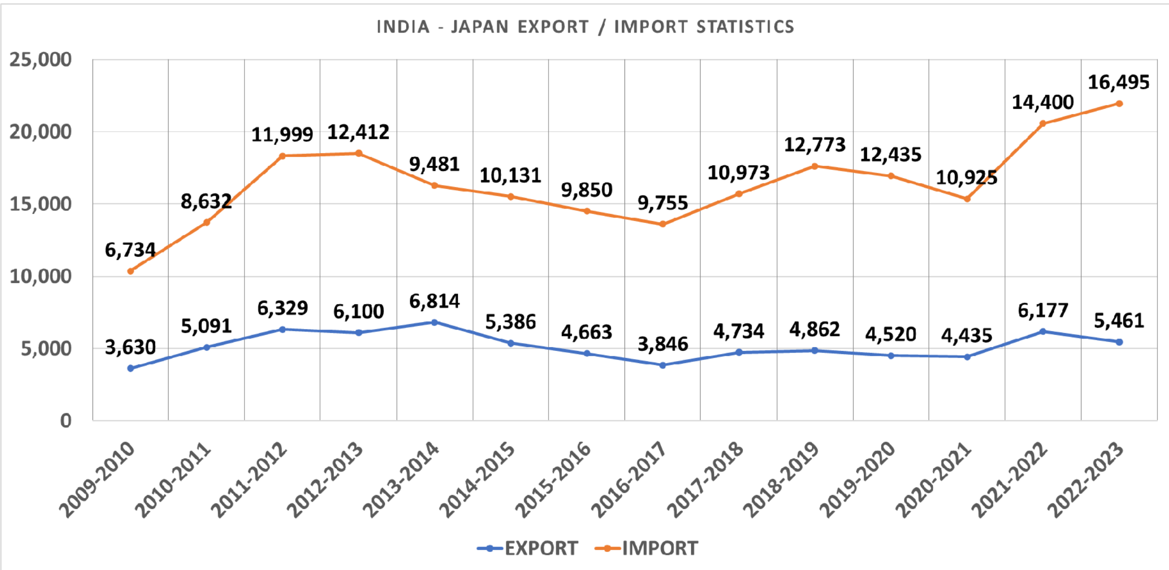

Figure 7: *India – Japan Export/Import Statistics - Values in US$ Million*

Source: Own Computation - (Export Import Data Bank, 2024) – Ministry of Commerce and Industry, India.

The graph, depicted as Figure 7, delineates the export and import statistics of goods between India and Japan from the fiscal year 2009-2010 to 2022-2023, denoted in USD millions. India's exports to Japan exhibited a consistent upward trend, commencing at $3,630 million in 2009-2010 and reaching $6,177 million by 2022-2023, marking a notable increase of approximately 70.2% over the 14-year period. Similarly, India's imports from Japan witnessed significant growth, ascending from $6,734 million in 2009-2010 to $16,495 million in 2022-2023, reflecting a substantial surge of about 144.9% during the same timeframe.

These figures underscore the deepening economic ties between the two nations, indicating robust growth in bilateral trade. India and Japan exhibit an asymmetrical trade pattern, with India exporting more raw materials and intermediate products while importing finished goods and advanced technology from Japan, driven by Japan's need for resources and India's demand for advanced technology.

With a comprehensive understanding of the trade balance between India and Japan, let's now explore the remarkable success stories of Indian companies in penetrating and thriving within the Japanese market.

4.4 Indian Companies in Japan

Indian companies have successfully penetrated the Japanese market, showcasing India's growing presence and competitiveness in Japan's business landscape. Some of the notable companies are...

4.4.1 Tata Consultancy Services

With a legacy spanning over 50 years, Tata Consultancy Services (TCS), an IT services and consulting company headquartered in India, has strategically positioned itself to capitalize on opportunities in the global market.

In 1987, Tata Consultancy Services (TCS) recognized Japan's emerging significance in the global market and identified an opportunity to assist Japanese companies in adopting digital technologies for business growth. TCS aimed to enhance Japanese companies' competitiveness by facilitating their digital transformation, thereby expanding its own business. In 2004, with annual sales reaching $1 billion, TCS established its Japanese subsidiary, Tata Consultancy Services Japan Ltd. Subsequently, in July 2014, TCS partnered with Mitsubishi Shoji to form a joint venture, leveraging the synergies between the Tata Group and Mitsubishi Corporation, both renowned conglomerates with extensive global networks and diversified business operations, (Kunihiko Akai, 2022).

This restructuring not only solidified its relationship with its Japanese partner but also positioned TCS as a significant player in Japan's lucrative IT services market, which is the second largest globally.

With a focus on expanding beyond its traditional North American and European markets, signaling substantial growth prospects. This bold move aligns with TCS's vision of becoming a global IT leader and underscores the potential for Indian IT firms to thrive in Japan's tech landscape. Through strategic partnerships and a tailored approach to the Japanese market, TCS has laid the groundwork for sustained growth and success in this critical region, (Shivapriya a Dalmia, 2014).

4.4.2 OYO

OYO is an online platform that incorporates hotels and homes to provide affordable accommodation to their users.

OYO's success in Japan since its launch in 2019 in Tokyo is a testament to its innovative approach and commitment to transforming the hospitality landscape. Through strategic partnerships with industry giants like SoftBank and Yahoo! Japan, OYO swiftly established its presence, overcoming initial challenges such as company registration and hiring its first OYOPreneur.

One of OYO's key strategies in Japan was to introduce its unique housing concept, inspired by the simplicity of cup noodles. By offering "instant chintai," or easy housing solutions akin to instant noodles, OYO sought to disrupt the traditional rental market and provide hassle-free accommodation options. The overwhelmingly positive response from customers and the media validated OYO's approach, fueling its ambition to scale up its operations.

In addition to its housing segment, OYO expanded its footprint in Japan by venturing into the hotel industry through OYO Hotels Japan GK (OHJ). Leveraging its expertise in design, hospitality, and technology, OYO transformed traditional hotels and ryokans, offering improved customer service and boosting occupancy rates and profitability for its partners.

Crucially, OYO invested significantly in technology to enhance the booking experience for customers, forging partnerships with local OTAs like TL Lincoln and earning accolades from esteemed partners like Rakuten Travel. This dedication to technological innovation, coupled with its agile and adaptive leadership, enabled OYO to navigate challenges and pivot toward sustainable growth.

As OYO celebrates its first anniversary in Japan, it reflects not only on its achievements but also on its evolution from a launch phase to a promising enterprise focused on scaling its product strategy and operational excellence. With a strong foundation and a relentless pursuit of innovation, OYO is poised to continue its success story in Japan and beyond, (Kavikrut, 2020).

4.4.3 Quick Heal

Quick Heal Technologies' success in the Japanese market is evident through its strategic partnership with SoftBank Mobile, a leading Japanese mobile operator in 2011, to provide antivirus software for mobile phones. By tailoring its offerings to meet the specific needs of Japanese customers, Quick Heal has demonstrated its commitment to understanding and addressing the unique cybersecurity challenges faced by mobile users in Japan. The company's proactive approach, as evidenced by the installation of 1 lakh antivirus copies within a month, highlights its ability to quickly penetrate the market and meet the demand for mobile security solutions.

Moreover, Quick Heal's establishment of an office in Japan and ongoing negotiations with leading Japanese firms as OEM partners underscore its dedication to expanding its presence and forging key partnerships in the region. By localizing its products and services, Quick Heal has positioned itself as a trusted provider of cybersecurity solutions in Japan, catering to the growing demand for robust mobile security solutions.

Furthermore, Quick Heal's global expansion plans, including the opening of offices in Kenya and the USA, reflect its ambition to extend its reach beyond India and tap into new markets. With a strong focus on innovation and product development, as evidenced by its mobile security and Quick Heal Terminator products, Quick Heal is well-positioned to capitalize on the growing demand for cybersecurity solutions worldwide, Article from (The Times of India, 2013).

4.4.4 Sun Pharma

Sun Pharmaceutical Industries Limited (SPIL), the largest generic drug industry in India, strategically entered the Japanese market in March 2012, drawn by the country's growing demand for generic drugs and government initiatives to promote their use. Leveraging its expertise and global footprint, SPIL quickly established itself as a key player in Japan's pharmaceutical industry. Sun Pharma Japan Limited has 158 million Yen (997821.19 USD) in capital.

The acquisition of Ranbaxy Laboratories Limited in 2014 further solidified SPIL's position as a leading generic drug manufacturer, making it the world's fourth-largest company in the sector. Recognizing the importance of research and development, SPIL invested significantly in innovation to address unmet medical needs, particularly in chronic disease management. Overcoming initial challenges, including stringent quality standards and complex regulatory procedures, SPIL focused on understanding the local market dynamics and building partnerships with established Japanese companies to enhance its credibility and market presence.

By aligning its product offerings with Japan's demand for high-quality healthcare solutions, SPIL successfully differentiated itself from competitors and positioned itself for sustainable growth in one of the world's largest pharmaceutical markets. Through strategic acquisitions, investment in technology, and a commitment to quality and innovation, SPIL has emerged as a trusted pharmaceutical player in Japan, poised for continued success and business expansion, (JETRO, 2017).

Let’s conclude this chapter with the benefits enjoyed by India through this Agreement.,

4.5 Benefits of this CEPA

India and Japan share a robust economic partnership, characterized by extensive trade, investment, and industrial collaboration. The Comprehensive Economic

Partnership Agreement (CEPA) signed in 2011 has been instrumental in bolstering their bilateral trade relations, leading to significant benefits for both nations.

- **Tariff Reduction:**

The 2011 CEPA trade agreement has been instrumental in elevating bilateral trade between India and Japan. By reducing tariffs on a wide range of goods, the agreement has facilitated smoother business activities, leading to a significant increase in bilateral trade volume, which totaled US$21.95 billion in the financial year (FY) 2022-23.

- **Market Access:**

The India-Japan digital partnership (IJDP) and start-up hub, launched in 2018, focus on fostering cooperation in science, technology, and ICT, particularly in digital ICT technologies. The start-up hub in Bengaluru aims to bridge Indian start-ups with the Japanese market and potential investors, promoting innovation and supporting sustainable development goals. Japan's growing interest in India stems from its large and expanding market, as well as its abundant human resources.

- **Investment Opportunities:**

As of FY 2023, Japan stands as India's fifth largest foreign investor, with significant investments in sectors like automobiles, infrastructure, and telecom. During a visit to India in March 2022, Japanese Prime Minister Fumio Kishida announced an ambitious investment target of US$37 billion (JP¥ 5 trillion) over the next five years, underscoring Japan's commitment to deepening economic ties with India. In FY 2021-22, India emerged as the second most favored destination for Japanese outward foreign direct investment (FDI) in the medium term, according to the Japan Bank of International Cooperation (JBIC) Survey Report.

- **Knowledge Transfer:**

Through Japanese Official Development Assistance (ODA) to India, technical cooperation has seen an investment of US$776.46 million. This cooperation has facilitated the exchange of knowledge and expertise, with 11,600 Japanese experts traveling to India and 8,500 Indian trainees visiting Japan for training and capacity-building purposes.

- **Improvement in the Strategic Partnership:**

The India-Japan industrial competitiveness partnership, established in 2021, aims to bolster India's industrial competitiveness and strengthen the special strategic and global partnership between the two nations. Joint Working Groups have been formed across various sectors to promote collaboration and spur industrial growth, (IBEF, 2024a) (Briefing, 2023).

The India-Japan CEPA has undoubtedly brought a multitude of benefits, ranging from tariff reduction to enhanced investment opportunities and knowledge transfer, solidifying the bilateral relationship and fostering mutual growth and development.

Summary:

In this chapter, we explored the multifaceted economic relationship between India and Japan, culminating in the analysis of the Comprehensive Economic Partnership Agreement (CEPA). Beginning with an introduction to Japan and the historical backdrop of bilateral ties, we examined the pre-CEPA era to provide context to the subsequent discussions. The chapter elucidated the key provisions of the CEPA, with a particular focus on tariff reduction and the handling of non-tariff measures, underscoring its significance in bolstering trade and investment between the two nations. Furthermore, we analyzed import and export trends, highlighting the growing symbiosis between Indian and Japanese markets. Through case studies of successful Indian companies in Japan, we underscored the potential for collaboration and market penetration in the Japanese economy. Finally, we concluded by emphasizing the tangible benefits accrued by India as a result of the CEPA, signaling a new era of strategic partnership and economic growth between the two Asian powerhouses. Let's do the same for the CEPA that was signed between India – South Korea.

5 India – South Korea, Comprehensive Economic Partnership Agreement (CEPA)

This chapter aims to provide a thorough examination of the economic ties between India and South Korea, with a specific focus on the Comprehensive Economic Partnership Agreement (CEPA) and its implications as we did in the previous chapter. Beginning with an overview of South Korea and the historical context of their bilateral relations, the chapter delves into the period before the CEPA, highlighting key trade dynamics and investment trends. It explores how the CEPA has facilitated tariff reduction and addressed non-tariff measures, ultimately enhancing trade relations and fostering economic collaboration. Additionally, the chapter investigates the impact of the agreement on import and export patterns between India and South Korea, while also showcasing successful examples of Indian companies operating in the South Korean market. The overarching goal is to unravel the concrete benefits brought by the CEPA to India, paving the way for deeper strategic cooperation and mutual prosperity.

5.1 South Korea

South Korea, situated in East Asia, is a nation distinguished by its rich cultural heritage and diverse ethnicity, (Koh et al., 2020). Spanning approximately 100,364 km2 below the Military Demarcation Line, the Korean Peninsula shares the land border with the Democratic People's Republic of Korea, sharing the Sea Borders between China, and Japan. Over the years, South Korea has witnessed remarkable advancements in various spheres, including healthcare and economic prosperity (Kontis et al., 2017). With a population of around 51.63 million as of 2022, South Korea has seen a significant increase in life expectancy, rising from 62.3 years in 1970 to 83.6 years in 2021, (Service (KOCIS), 2022).

Politically, South Korea operates as a democratic republic with three independent government branches—legislative, executive, and judicial—based on the principle of separation of powers. The country follows a Presidential system, with Yoon Suk Yeol inaugurated as the 20th President in 2022, serving a single five-year term.

Economically, South Korea embraces an open market system and actively engages in negotiations for more Free Trade Agreements (FTAs) while encouraging foreign investment and outbound investment by domestic companies. With aspirations to become a major financial hub and logistics base in Northeast Asia, South Korea offers advantages to foreign investors, (Service (KOCIS), 2020).

In terms of its robust economy, South Korea's GDP stands at US$1.67 Trillion – (World Bank Open Data, 2022), with a per capita Gross National Income (GNI) of US$32,661. Showing a steady growth rate of 2.6% from 2021 to 2022, South Korea's economy reflects stability and expansion. Key sectors such as electronics, automobiles, shipbuilding, steel, and science and technology drive its economic prowess, with global leaders like Hyundai, Kia, Hyundai Heavy Industries, Daewoo Shipbuilding & Marine Engineering, and POSCO showcasing the country's industrial strength and global competitiveness, (Oh et al., 2021).

South Korea stands as a dynamic and flourishing nation, exemplifying remarkable progress in various aspects of society, politics, and economics, positioning itself as a prominent player on the global stage.

5.2 India & South Korea Before CEPA

Before the Comprehensive Economic Partnership Agreement (CEPA) between India and South Korea, bilateral trade between the two nations was already established. They engaged in trade based on existing agreements and regulations, exchanging various goods and services.

Trade Volume and Sectors:

The trade volume between India and South Korea had been steadily increasing over the years before the CEPA. Both countries were significant trading partners, particularly in sectors such as electronics, automobiles, machinery, chemicals, and textiles.

Cooperation Initiatives:

India and South Korea collaborated on various cooperation initiatives, focusing on technology, research, and development. These initiatives aimed to enhance economic ties, promote investments, and foster innovation between the two countries.

Investment Relations:

Before the CEPA, India and South Korea had active investment relations, with Korean companies investing in sectors like automobiles, electronics, and infrastructure in India. Similarly, Indian investments in South Korea were notable, contributing to economic cooperation between the two nations.

Trade Challenges and Objectives:

Despite the existing trade relations, challenges such as tariff barriers, non-tariff measures, and regulatory issues may have hindered the smooth flow of trade between India and South Korea. Addressing these challenges and enhancing bilateral trade cooperation were key objectives before the establishment of the CEPA, (Banik a Kim, 2022), (ASEAN, 2015).

After laying the foundation for previous trade agreements and cooperation projects, the Comprehensive Economic Partnership Agreement (CEPA) between South Korea and India was recognized as a critical step toward increased economic integration and cooperation between the two countries.

5.3 India – South Korea CEPA

The CEPA, which came into effect in 2010, built upon the existing trade ties between India and South Korea. It aimed to further enhance bilateral trade by reducing tariffs, eliminating trade barriers, and promoting investment flows. The agreement provided a structured framework for comprehensive economic cooperation, marking a significant milestone in the economic relations between the two countries.

5.3.1 Overview

The Comprehensive Economic Partnership Agreement (CEPA) between India and the Republic of Korea was initiated in Seoul on August 7, 2009, and became effective from January 1, 2010. This agreement aimed to reduce tariffs, address non-tariff measures, promote market access for goods and services, facilitate investment flows, protect intellectual property rights, and strengthen trade relations. It facilitated significant opportunities for investment and trade expansion. Under the pact, South Korea agreed to phase out or reduce tariffs on 90% of Indian exports, while India committed to eliminating or reducing tariffs on 85% of Korean exports, (Banik a Kim, 2022) (Briefing, 2021).

5.3.2 Tariff Reduction Included in CEPA:

- **Comprehensive Framework:**

The CEPA between India and South Korea represents a comprehensive framework aimed at fostering deeper economic integration through the gradual reduction or elimination of tariffs on a significant number of traded goods. This structured approach is designed to create a more competitive environment, stimulating trade and fortifying economic collaboration.

- **Categorization:**

Traded goods are categorized into distinct segments such as E-0, E-5, E-8, RED, SEN, and EXC, each representing varying levels of tariff reduction or elimination. E-0 for complete tariff elimination, E-5 for 20% annual reduction, E-8 for 12.5% annual reduction over eight years, RED for 1–5% reduction in eight installments, SEN for 50% reduction over time for sensitive products, and EXC with no tariff reduction. These categories aimed to facilitate duty-free trade, gradual tariff reduction, and market access enhancement, fostering economic cooperation between the two countries, (Sahoo et al., 2023).

- **Phased Implementation:**

Over an eight-year period, both countries have committed to gradually diminishing tariffs on a substantial percentage of each other's exports. This phased implementation ensures a systematic approach to tariff reduction, allowing for a smooth transition towards diminished trade barriers.

- **Reduction Schedules:**

The CEPA outlines specific schedules for tariff reductions across various categories of goods exchanged between India and South Korea. These reduction schedules strategically lower tariffs on different products over a defined period, fostering a conducive environment for trade growth and economic cooperation.

- **Differentiated Approaches:**

Notably, South Korea's tariff reductions exhibit a more front-loaded approach compared to India's gradual progression towards zero tariffs. This differentiation reflects the distinctive strategies employed by each country within the agreed-upon timeframe, demonstrating flexibility and adaptability in navigating tariff reduction processes, (Ahmed, 2011) (ASEAN, 2015).

5.3.3 Non-Tariff Measures mentioned in this CEPA:

- **Regulatory Coherence:**

The CEPA underscores the need for regulatory coherence between India and South Korea, aiming to align trade regulations and standards. This alignment reduces uncertainty for businesses and facilitates smoother trade transactions by promoting consistency in regulatory frameworks. Such coherence streamlines processes, ensuring products meet agreed-upon standards, thus enhancing market access and fostering fair competition.

- **Addressing Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Measures:**

The CEPA likely tackled TBT and SPS measures, harmonizing standards and regulations to minimize trade hindrances. Streamlining TBT-related processes enhances market access and trade efficiency. Provisions related to SPS measures to safeguard human, animal, and plant health, ensuring food safety and quality, and fostering sustainable trade practices (Banik a Kim, 2022).

- **Investment Provisions:**

The CEPA may have included investment provisions to bolster economic cooperation, granting national treatment to investors from both nations. Clear guidelines for investment activities protect investor rights, fostering a conducive environment for business ventures and enhancing bilateral economic relations.

- **Dispute Resolution Mechanisms:**

The agreement likely outlined mechanisms for resolving disputes, ensuring a smooth resolution process for trade and investment conflicts. Such structured frameworks reduce uncertainties and risks, fostering trust among businesses from both countries.

- **Intellectual Property Rights (IPR) Protection:**

Strengthening IPR protection fosters innovation and technology transfer. The CEPA may include provisions to safeguard intellectual property and encourage research and development activities.

- **Technical Standards and Certifications:**

Provisions related to technical standards and certifications ensure transparent and efficient conformity assessment procedures. Harmonizing these standards enhances market access, promotes interoperability, and reduces duplication of testing and certification requirements, (Ahmed, 2011) (ASEAN, 2015).

In 2022, India was Korea’s 11th largest trading partner, accounting for just 2% of Korea’s trade and 0.5% of its foreign investment. However, Korea plans to boost development funding for India tenfold by 2024, aiming to rank India 7th among its priority partners. This highlights growing economic ties, paving the way for closer collaboration. Now, let’s explore the import-export dynamics between India and South Korea, (Policy, 2023).

Table 4: *India's Top 10 Exports to South Korea – Values in US$ Million*

S.No.	HSCode	Commodity	2021-2022	2022-2023
1	27	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES.	2,542.98	2,007.15
2	76	ALUMINIUM AND ARTICLES THEREOF.	1,519.03	925.46
3	72	IRON AND STEEL	608.11	303.91
4	29	ORGANIC CHEMICALS	518.81	629.78
5	78	LEAD AND ARTICLES THEREOF.	316.61	220.83
6	52	COTTON.	259.92	149.25
7	84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF.	255.16	290.98
8	23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODER.	174.95	225.64
9	71	NATURAL OR CULTURED PEARLS,PRECIOUS OR SEMIPRECIOUS STONES,PRE.METALS,CLAD WITH PRE.METAL AND ARTCLS THEREOF;IMIT.JEWLRY;COIN.	132.69	125.91
10	87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF.	132.21	158.91

Source: (Export Import Data Bank, 2024) – Ministry of Commerce and Industry, India.

India's exports to South Korea in the fiscal year 2022-2023, as depicted in Table 4, highlight the significant commodities traded between the two nations. Mineral fuels, mineral oils, and their by-products emerged as the top export category, totaling 2,007.15 million dollars, followed by aluminum and articles thereof, with a value of 925.46 million dollars.

Iron and steel, organic chemicals, lead, and articles thereof also featured prominently among India's exports to South Korea. Notably, there were fluctuations in export values compared to the previous fiscal year, indicating the dynamic nature of trade relations between the two countries. Other notable exports included cotton, nuclear reactors, boilers, machinery, and mechanical appliances, demonstrating the diversity of goods exchanged between India and South Korea.

India's exports to South Korea are primarily focused on commodities like mineral fuels, aluminum, iron and steel, organic chemicals, and cotton. While these products showcase India's prowess in raw materials and basic manufacturing, they typically yield lower unit prices compared to South Korea's high-value exports.

Table 5: *India's Top 10 Imports from South Korea – Values in US$ Million*

S.No.	HSCode	Commodity	2021-2022	2022-2023
1	85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION IMAGE AND SOUND RECORDERS AND REPRODUCERS,AND PARTS.	3,123.28	4,361.60
2	72	IRON AND STEEL	2,573.02	2,809.77
3	39	PLASTIC AND ARTICLES THEREOF.	2,317.05	2,290.97
4	84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF.	1,780.84	2,151.11
5	27	MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES; MINERAL WAXES.	1,479.87	1,972.43
6	29	ORGANIC CHEMICALS	1,334.61	1,286.64
7	87	VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF.	813.11	1,013.41
8	90	OPTICAL, PHOTOGRAPHIC CINEMATOGRAPHIC MEASURING, CHECKING PRECISION, MEDICAL OR SURGICAL INST. AND APPARATUS PARTS AND ACCESSORIES THEREOF;	430.48	503.84
9	73	ARTICLES OF IRON OR STEEL	407.76	345.16
10	40	RUBBER AND ARTICLES THEREOF.	364.04	408.02

Source: (Export Import Data Bank, 2024) – Ministry of Commerce and Industry, India.

Table 5 presents India's top 10 imports from South Korea for the fiscal year 2022-2023. Electrical machinery and equipment and parts thereof emerged as the highest-imported commodity, totaling 4,361.60 million dollars, followed closely by iron and steel products valued at 2,809.77 million dollars. Plastic and articles thereof, nuclear reactors, boilers, machinery, and mechanical appliances, and mineral fuels, mineral oils, and their by-products were also significant imports from South Korea.

The data reflects the diverse range of products sourced by India from South Korea, highlighting the strong bilateral trade relationship between the two countries. These import figures underscore the importance of South Korea as a trading partner for India and the vital role it plays in meeting India's domestic demand for various goods and machinery.

South Korea's export dominance in high-value manufactured goods and machinery, such as electrical equipment, iron and steel, plastics, and machinery components, underscores its advanced manufacturing prowess. These exports meet India's demand for sophisticated industrial inputs, reflecting South Korea's technological expertise.

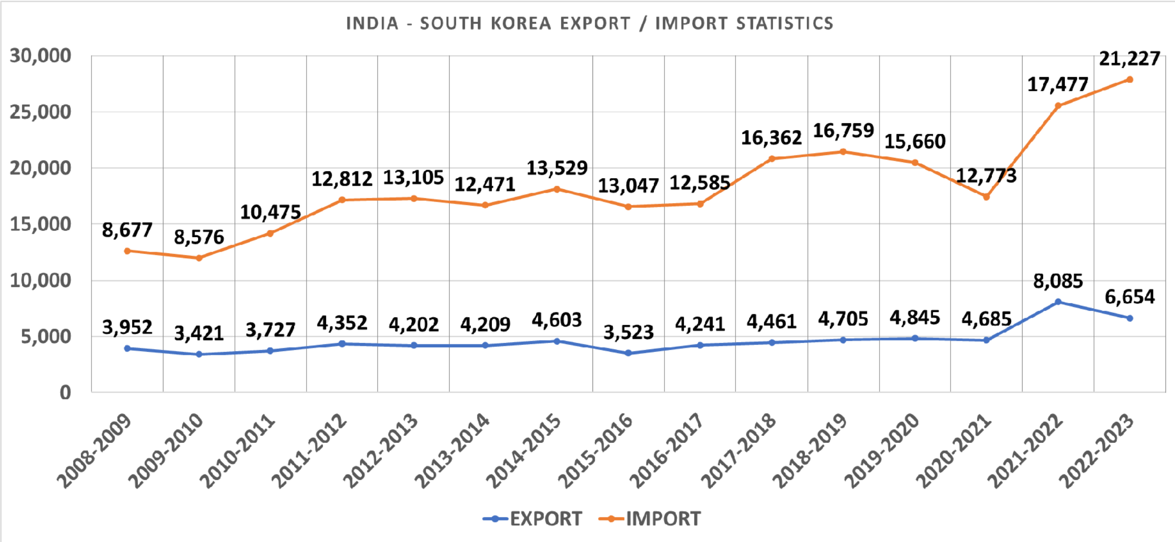

Figure 8: *India – South Korea Export/Import Statistics of Goods – Values in US$ Million*

Source: Own Computation - (Export Import Data Bank, 2024) – Ministry of Commerce and Industry, India.

The graph, illustrated as Figure 8, showcases the export and import statistics of goods between India and South Korea spanning from the fiscal year 2008-2009 to 2022-2023, denoted in USD millions. India's exports to South Korea experienced fluctuating trends over the years, starting at $3,952 million in 2008-2009 and reaching $8,085 million in 2021-2022, marking a significant increase of approximately 104.3% over the 14-year period.

Conversely, India's imports from South Korea witnessed consistent growth, rising from $8,677 million in 2008-2009 to $21,227 million in 2022-2023, indicating a substantial surge of about 144.2% during the same timeframe. These figures underscore the dynamic nature of the bilateral trade relationship between India and South Korea, highlighting the increasing economic integration and mutual dependence. India's trade with South Korea echoes its relationship with Japan, characterized by the export of raw materials and intermediate goods while importing higher-value manufactured products. This reciprocal trade pattern underscores the symbiotic nature of their economies: India provides resources essential for South Korea's manufacturing sector, while South Korea reciprocates by meeting India's demand for advanced goods.

Having examined the intricacies of the trade statistics between India and South Korea, let's now shift our focus to explore the achievements and triumphs of Indian companies that have flourished within the dynamic landscape of the South Korean market.

5.4 Indian Companies in South Korea

Indian enterprises have significantly established their footprint in the South Korean market, underscoring India's expanding influence and competitiveness in South Korea's business arena. Some of the prominent installations include…

5.4.1 Tata Motors

Tata Motors, a global automotive powerhouse with assets worth USD 35 billion, has been a driving force in the industry since its inception in 1945. With a rich history spanning decades, Tata Motors introduced its first vehicle in 1954 and has since expanded its footprint with six manufacturing plants across India. Notably, the company made history in September 2004 by becoming the first Indian engineering firm to list its securities on the prestigious New York Stock Exchange, (tatamotors, 2018).

Renowned for its diverse portfolio, Tata Motors is a key player in the global automotive arena, manufacturing and marketing a wide range of vehicles, including passenger cars, SUVs, trucks, buses, and military vehicles. In a strategic move to bolster its presence in the international market, Tata Motors acquired the Daewoo Commercial Vehicle Company in South Korea in 2004 for $102 Million, paving the way for the establishment of Tata Daewoo Commercial Vehicle.

In the fiscal year 2023, Tata Daewoo Commercial Vehicle Co., Ltd. Witnessed impressive growth, recording approximately 937.9 billion South Korean won in revenue. This significant uptick in sales underscored Tata Daewoo's prominence as one of the leading manufacturers of trucks in South Korea, inheriting the legacy of the erstwhile Daewoo Motors' truck division. Alongside Hyundai Motor Company, Tata Daewoo played a pivotal role in shaping South Korea's automotive landscape, exemplifying Tata Motors' commitment to innovation and excellence on a global scale, Statista (Jang Seob Yoon, 2023) (StreetJournal, 2004).

5.4.2 Mahindra & Mahindra

Mahindra & Mahindra (M&M), a prominent player in the global automotive industry, has made significant inroads into the competitive South Korean market, reflecting its commitment to expanding its presence beyond its home country of India. Despite encountering challenges, M&M has demonstrated resilience and determination in its efforts to establish itself as a key player in South Korea's automotive landscape.

The acquisition of a 70% stake in SsangYong Motors, a subsidiary of M&M, underscores the company's strategic vision and ambition to capitalize on opportunities for growth and expansion. While SsangYong Motors has faced operational setbacks, including an operating loss of 238 billion won in January-September 2021, M&M has remained steadfast in its commitment to revitalizing the subsidiary and restoring profitability.

Despite the recent acquisition of SsangYong Motors by a local consortium, led by Edison Motors, M&M's impact in South Korea remains significant. The company's enduring efforts to navigate the complexities of the South Korean automotive landscape reflect its dedication to achieving long-term success and sustainability in the region. As M&M continues to adapt and innovate in response to evolving market dynamics, its influence, and contributions to the South Korean automotive industry are poised to endure, reinforcing its status as a formidable player on the global stage, (Business Today, 2020) (S&P Global, 2010).

5.4.3 Wipro Technologies

Wipro, a leading global IT services provider, has established a formidable presence in the Korean market since 2002, leveraging a localized team comprising over 250 skilled professionals. With a focus on key sectors such as telecommunications, manufacturing, engineering, construction, and utilities, Wipro has cultivated strong relationships with large and global accounts in South Korea. Operating from Seoul, Wipro offers specialized product engineering services tailored to verticals including technology, manufacturing, and finance.

In Korea’s rapidly evolving IT landscape, characterized by its pivotal role in driving manufacturing, investment, employment, and exports, Wipro serves as a trusted technology partner. Despite the region’s global competitiveness and world-class infrastructure, challenges persist concerning skills and research and development

(R&D) capabilities. Wipro addresses these challenges by providing a comprehensive suite of services encompassing the right skill sets, domain expertise, and regional knowledge, underpinned by state-of-the-art IT infrastructure.

Wipro’s enduring commitment to the Korean market is underscored by its localized teams and collaborative engagements across diverse industries, including telecom, manufacturing, hi-tech, engineering, construction, and utilities. With a workforce of over 250 employees, including a significant localized contingent, Wipro stands out for its track record of delivering complex transformational projects and integrated solutions in a fiercely competitive market.

Wipro’s value proposition revolves around enabling globalization for Korean companies, facilitating a unified view of operations across multi-country engagements, and enhancing profitability through a global supply model and industry-specific domain solutions. The company’s global IT partnership initiatives further cement its role as a strategic ally for Korean enterprises, fostering collaboration on global projects and assuming complete ownership of IT services in contractual engagements, (Wipro, 2024).

In closing, let us discuss the advantages that India has reaped from this Agreement.

5.5 Benefits of this CEPA

India and South Korea have witnessed remarkable growth in their economic ties, marked by a significant surge in bilateral trade and strategic cooperation. The Comprehensive Economic Partnership Agreement (CEPA) between the two nations has played a pivotal role in fostering this growth, unlocking new avenues for collaboration and investment.

Improvement in Bilateral Trade:

Bilateral trade between India and Korea has surged, reaching US$ 27.8 billion in 2022-23, marking a growth of 21.46%. This trajectory suggests a promising outlook, with expectations of bilateral trade hitting US$ 50 billion by 2030. India's increasing significance as Korea's 16th largest import source and 7th largest export market in 2021 underscores the strengthening economic ties between the two nations.

Market Access:

The CEPA has facilitated market access, particularly in the services sector, covering areas such as telecommunications, construction, transportation, and financial services. Notably, Korean banks have expanded their presence in India, with several establishing branches across the country. Moreover, CEPA has opened avenues for the temporary movement of Indian professionals to access the Korean services market, enhancing collaboration and skill exchange.

Investment Opportunities:

South Korea's investment in India has been substantial, with recorded investments reaching US$ 218 million in 2021. Hyundai Motor Group, Samsung Electronics, and LG Group stand out as leading investors, driving significant contributions to India's automotive sector. Investments by Hyundai and Kia Motors underscore their commitment to India's burgeoning electric vehicle market, signaling confidence in the country's growth potential.

Technology Cooperation:

The partnership between India and South Korea encompasses not only trade and investment but also extends to technology cooperation, particularly evident in defense production and naval shipbuilding. Notable collaborations include those between Hindustan Shipyard Ltd. and Hyundai Heavy Industries Co. Ltd., aligning with India's 'Make in India' initiative. This national program aims to attract global investments, foster innovation, and enhance skill development, with a focus on strengthening India’s manufacturing sector. Additionally, a significant contract has been signed between L&T of India and M/s Hanwha Techwin of ROK for the production of one hundred tracked self-propelled 155mm/52 caliber artillery guns, known as 'K-9 Vajra,' for the Indian Armed Forces, (IBEF, 2021).

Strategic Partnership:

India and South Korea's deepening strategic partnership encompasses diverse sectors, including space, defense, and nuclear energy. Through initiatives like the India-Republic of Korea Strategic Dialogue, both nations reaffirm their commitment to bolstering bilateral cooperation on regional and global issues. The ongoing review of the CEPA underscores efforts to optimize the agreement and achieve balanced trade relations.

The India-South Korea CEPA stands as a testament to the evolving economic relationship between the two nations, offering myriad opportunities for trade, investment, and strategic collaboration. As both countries continue to strengthen their ties, the CEPA serves as a cornerstone for fostering mutual growth and prosperity in the years to come, (Embassy of India, Seoul, 2022) (IBEF, 2024b) (Briefing, 2021).

Summary:

In this chapter, we explored the intricate economic relationship between India and South Korea, culminating in an analysis of the Comprehensive Economic Partnership Agreement (CEPA). We began by introducing South Korea and providing context on the historical ties between the two nations. Following that, we examined the timeframe preceding the CEPA to better understand the landscape before the agreement. The chapter detailed the key provisions of the CEPA, particularly focusing on tariff reduction and the handling of non-tariff measures, highlighting its pivotal role in bolstering trade and investment between India and South Korea. Furthermore, we examined import and export trends, illustrating the growing interdependence between the two economies. Through case studies of Indian companies thriving in South Korea, we underscored the potential for collaboration and market expansion. Finally, we concluded by emphasizing the tangible benefits reaped by India from the CEPA, signaling a new phase of strategic partnership and economic prosperity between the two nations.

Conclusion

In the context of India, regionalism in international trade holds significant implications for the nation's economic trajectory. As India continues to navigate the complexities of the global market, its engagement with regional trade blocs and agreements becomes increasingly vital. The country's participation in initiatives like the Comprehensive Economic Partnership Agreement (CEPA) with nations such as Japan and South Korea underscores its commitment to fostering regional economic integration. Through such agreements, India not only seeks to expand its market access but also aims to leverage its strategic partnerships to bolster key sectors of its economy. Regionalism offers India an avenue to enhance trade relations, promote investment flows, and tap into emerging opportunities within neighboring regions. Moreover, as the dynamics of global trade evolve, India's proactive engagement with regional trade mechanisms becomes integral to its broader economic agenda, fostering sustainable growth and competitiveness on the international stage.

In the first chapter, we examined the historical development of regionalism and highlighted India's proactive involvement in regional economic cooperation, of which there are currently fifteen RTAs in effect. The first part of the discussion covered the non-discriminatory principles of the GATT, including its transition to the WTO and its articles I and III. Both positive and negative aspects were discussed. We discussed various trade policies, from liberalism to protectionism, and delineated the role of the World Trade Organization. In addition, we examined tariffs and non-tariff barriers as described in UNCTAD's Non-Tariff Measures. This prepared the ground for our subsequent examination of the complexities of economic integration and provided insight into both the static and dynamic effects of trade.

The second chapter has provided a comprehensive understanding of economic integration, exploring its various forms such as free trade areas, customs unions, and common markets. It has elucidated the progressive nature of Regional Trade Agreements (RTAs) within the framework of WTO rules and highlighted the significance of macroeconomic indicators in assessing integration levels. By emphasizing the role of these indicators, particularly within the context of regional trade agreements, the chapter has offered valuable insights into the dynamic landscape of economic integration and its impact on global trade relations

In the third chapter, a PEST analysis provides a comprehensive overview of India’s landscape. Politically, discussions focus on measures to bolster business development and India's rank on the Corruption Perception Index (93rd overall), along with strategic partnerships with nations like the United States and Japan. Economically, the analysis highlights India's major exports and imports, with key indicators such as a GDP of $3.42 trillion, FDI at 1.47% of GDP, a merchandise trade deficit of -$267.041 billion, and inflation at 6.6%. Notably, the services sector recorded a significant trade surplus of $145.29 billion during 2022-23, marking a 35.14% increase from the previous year, which underscores the robustness of this sector. Socially, India's demographic landscape is explored, highlighting its vast population of 1.4 billion, extensive land area of 3.287 million square kilometers, and youthful demographic, with 808 million (66%) being young.

Despite being a secular nation valuing diversity and religious freedom, poverty remains a pressing issue, with a poverty rate of 10.35%. Finally, in the technological sphere, India's prowess is evident, particularly in the ICT sector and telecommunications. The digital economy contributes over 13% to GDP, with targets set to reach $1 trillion by 2025. India boasts the world's second-largest subscriber base, with projections indicating 1 billion smartphones by 2026, alongside the recent launch of 5G services marking a significant milestone in its digital transformation journey.

The fourth chapter provides an in-depth exploration of the Comprehensive Economic Partnership Agreement (CEPA) between India and Japan. Beginning with an overview of Japan's background and the historical relationship between the two countries, the chapter delves into the specifics of the agreement, including tariff reductions and non-tariff measures such as Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Measures. Import and export trends between India and Japan from 2009 to 2023 are analyzed, revealing significant figures such as current imports from Japan standing at USD 16,495 million and exports to Japan at USD 5,461 million. Additionally, the chapter showcases the achievements of Indian companies in the Japanese market, demonstrating the potential advantages derived from their operations. Overall, the CEPA has facilitated tariff reduction, improved market access, and strengthened the strategic partnership between India and Japan, fostering mutual growth and prosperity in both nations.

Mirroring the preceding chapter, the fifth and final chapter extensively examines the Comprehensive Economic Partnership Agreement (CEPA) between India and South Korea. Beginning with an overview of South Korea's background and the pre-CEPA economic relationship between India and South Korea, the chapter meticulously outlines the specifics of the agreement. This includes tariff reductions categorized under a comprehensive framework and reduction schedules, alongside non-tariff measures like Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) Measures, Dispute Resolution Mechanisms, and Intellectual Property Rights (IPR) Protection.

Importantly, the chapter scrutinizes import and export trends between India and South Korea from 2008 to 2023, revealing significant figures such as current imports from South Korea amounting to USD 21,227 million and exports to South Korea totaling USD 6,654 million. Additionally, it highlights the strides made by Indian companies in the Korean market, acknowledging both their successes and challenges, which collectively contribute to their significant impact. Overall, the CEPA has not only facilitated improvements in bilateral trade and market access but has also fostered technology cooperation and strengthened the strategic partnership between India and South Korea, thus paving the way for enhanced mutual growth and prosperity.

In conclusion, this thesis successfully explains the significant role of Regional Trade Agreements (RTAs) in shaping Indian trade dynamics, particularly through its interactions with Japan and South Korea. The comparative analysis of trade patterns, tariff reductions, and non-tariff measures reveals how RTAs have not only facilitated smoother trade flows but also enhanced economic integration among these nations. This research highlights the strategic maneuvers by Indian companies to penetrate these foreign markets effectively, showcasing the adaptive strategies that have underpinned their success. By examining import-export trends, trade balances, and sectoral performance, the study underscores the multifaceted benefits of RTAs, which include improved market access and strengthened economic ties. The findings clearly demonstrate that RTAs contribute substantially to India’s economic growth and integration into the global economy, making a compelling case for the continued pursuit of such agreements to bolster India's economic trajectory.

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