

INDIA'S TRADE LIBERALISATION INITIATIVES AND TRENDS IN BALANCE OF TRADE UNDER THE REGIONAL TRADE AGREEMENTS: THE CASE OF RUBBER AND RUBBER PRODUCTS

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Received: 09 September 2016 Accepted: 15 November 2016

Joseph, J. and George, K. T. (2016). India's trade liberalisation initiatives and trends in balance of trade under the regional trade agreements: The case of rubber and rubber products. *Rubber Science*, 29(3): 238-245.

India's rubber sector has been endowed with the unique feature of a well-developed natural rubber (NR) production and rubber products manufacturing segments since the 1940s. A remarkable degree of domestic market orientation of both the segments had been protected from external competition till the early 1990s. India's Regional Trade Agreements (RTAs) assume importance for the trade sensitivity arising from higher shares in the total value of external trade in rubber and rubber products (47.2 %) and in the negative balance of trade (278.6 %) during 2014-15. Among the total 23 trade agreements signed by India, tariff reduction/elimination commitments for rubber and rubber products are covered only under 11 agreements. This paper is concerned with (i) India's tariff policies on rubber and rubber products under the RTAs and (ii) the impact of the same on India's balance of trade in rubber and rubber products. Analysis of time series external trade data for the past 15 year period from 2000-01 to 2014-15 revealed that India provided ample protection to its NR production segment under various RTAs except Asia Pacific Trade Agreement (APTA) and less developed countries under the South Asian Free Trade Area (SAFTA). However, the total value of imports of NR under RTAs grew at the rate of 39.5 per cent and the negative balance of trade during 2014-15 was US \$ 785.35 million. At the aggregate level, India's exports and imports of rubber and rubber products under the RTAs grew at the rates of 16.8 per cent and 26.3 per cent, respectively during the period under review. The magnitude of the emerging trends is evident from a higher negative balance of trade with the RTAs (US \$ 1469 million) than with the world during 2014-15. The results of the study underlined the need for a comprehensive policy package for India's rubber sector rather than segmented ad-hoc measures from a long-term policy perspective.

Key words: Balance of trade, Inverted duty, Natural rubber, Regional trade agreements, Rubber and rubber products, Tariff elimination, Tariff reduction

INTRODUCTION

A highly developed, diversified and domestic market oriented Indian rubber sector has been unique among the major natural rubber (NR) producing countries.

India's rubber sector consisted of three broad segments, viz. raw materials, intermediate products and finished products. The raw material segment consists of NR, Synthetic rubber (SR) and Reclaimed rubber (RR) (*ie.*

HS 4001 to 4003), intermediate products segment consists of waste, parings and scrap of rubber (other than hard rubber) and powders and granules obtained therefrom; compounded rubber, unvulcanised, in primary forms or in plates, sheets or strip, *etc.* (*ie.* HS 4004 to HS 4008) and the finished products segment consists of all major value added products of rubber including tyres, tubes *etc.* (*ie.* HS 4009 to HS 4017). Functionally, India's rubber sector is an agglomeration of more than one million rubber farmers, 104 licensed processors in the organised sector, 9533 rubber dealers and 4334 licensed manufacturers (Rubber Board 2013; 2015). A unique characteristic of India's rubber sector had been the interconnectedness among the segments evolved under a protected policy regime. The trade policy reforms initiated since 1991 have led to a breakdown of the linkages within the sector. This proposition assumes importance in the backdrop of the policy changes and structural adjustments consequent to the WTO agreement and

various regional trade agreements (RTAs). The external trade sensitivity of India's rubber sector to the RTAs is evident from its share in India's total merchandise trade in rubber and rubber products (47.2 %).

The history of India's trade agreements begins with the signing up of Bangkok Agreement, (Asia Pacific Trade Agreement) in 1975. However, India's involvement in RTAs gathered momentum only in the 2000s and so far India has concluded 23 such trade agreements (GOI 2015). There are bilateral and multilateral agreements. Though India had concluded 23 trade agreements rubber and rubber products are covered only in 11 for tariff concessions. Table 1 provides the chronological list of the 11 agreements. Among them, technically, five are Free Trade Agreements (FTA), two each under Preferential Trade Agreements (PTA), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic Partnership Agreements (CEPA).¹

The earlier RTA-specific studies related to the rubber sector were primarily focused

Table 1. List of India's trade agreements where rubber and rubber products are covered²

Sl. No.	Agreements	Type of the agreement	Year of entry
1	Asia Pacific Trade Agreement (APTA)	PTA	July 1975
2	India Sri Lanka FTA (ISLFTA)	FTA	March 2000
3	Comprehensive Economic Cooperation Agreement (CECA) between The Republic of India and the Republic of Singapore	CECA	August 2005
4	Agreement on South Asia Free Trade Area (SAFTA)	FTA	January 2006
5	India Bhutan Trade Agreement	FTA	July 2006
6	India MERCOSUR PTA	PTA	June 2009
7	India Nepal Trade Treaty	FTA	October 2009
8	Comprehensive Economic Partnership Agreement (CEPA) between India and Korea	CEPA	January 2010
9	ASEAN India Free Trade Area (AIFTA)	FTA	January 2010
10	CECA between India and Malaysia	CECA	July 2011
11	CEPA between India and Japan	CEPA	August 2011

on tariff policies, RTA-specific balance of trade and challenges of India's NR production segment (Joseph *et al.*, 2006; George and Joseph, 2014; Joseph and George, 2016). So far, no serious attempt has been made to understand the overall impact of RTAs on India's rubber and rubber products sector, especially on the balance of trade. The sensitivity of rubber and rubber products varied across RTAs and countries involved. Therefore, the objectives of the present study are: (i) to analyse India's tariff policies on rubber and rubber products under different RTAs; and (ii) to examine India's balance of trade in rubber and rubber products under the RTAs.

MATERIALS AND METHODS

Time series external trade data for the past 15 year period from 2000-01 to 2014-15 and details on tariff concessions under various RTAs available with the Department of Commerce, Ministry of Commerce and Industry and Central Board of Excise and Customs, Department of Revenue, Ministry of Finance, Government of India were used for the analysis³. Depending on the extent of value addition, rubber and rubber products included in different RTAs are classified into: (i) raw materials (ii) intermediate products, and (iii) finished products. Based on the tariff policy pursued, the products were categorised under (i) tariff elimination, (ii) tariff reduction and (iii) products exempted from any kind of tariff reduction/elimination for the analysis.

RESULTS AND DISCUSSION

RTAs and the rubber sector

The extent of tariff concessions offered on rubber and rubber products varied among the agreements. Among the three FTAs, *viz.* South Asian Free Trade Area (SAFTA), India Sri Lanka FTA (ISLFTA) and

ASEAN India FTA (AIFTA), duty free import for all kinds of rubber and rubber products are permitted only from less developed countries (LDCs) of SAFTA, *viz.* Bangladesh, Nepal, Bhutan, Maldives, and Afghanistan. Among the LDCs of SAFTA, only Bangladesh is a producer of NR with limited export potential. Though most of the rubber and rubber products are in the exclusion list of ISLFTA, tyres and latex based products are eligible for duty free import into India. Moreover, Sri Lanka is eligible for lower tariffs on a wide range of rubber and rubber products being a signatory to three among the 11 RTAs. Conversely, the AIFTA is deeper in terms of tariff concessions offered, coverage of the products and the involvement of major producing and exporting countries of rubber and rubber products. Except different forms of NR, India has earmarked most of its rubber and rubber products for tariff concessions under AIFTA. From a policy angle, by excluding NR from any tariff reduction/elimination commitments, India has protected its domestic NR production sector from the vagaries of cheaper NR imports from the ASEAN member countries. Conversely, under Asia Pacific Trade Agreement (APTA) various forms of NR as well as rubber products are included in the tariff reduction category. However, technically, with all the bilateral trade agreements, except Nepal and Bhutan, India has provided ample protection to the NR production sector.

Balance of trade in rubber and rubber products

Table 2 shows the trends in India's external trade in rubber and rubber products and trade share with RTAs and World. Three points deserve attention. First of all, despite an erratic trend in the recent past India's

Table 2. **India's external trade in rubber and rubber products (US \$ million)**

Year	Trade with RTAs			Trade with world			Share (%) of RTAs in the total value of trade
	Exports	Imports	Balance of trade	Exports	Imports	Balance of trade	
2000-01	92.6 (25.5)	131.5 (46.4)	-38.9	363.1	283.5	79.6	34.7
2001-02	90.7 (23.6)	149.3 (47.7)	-58.6	384.2	312.8	71.4	34.5
2002-03	138.9 (26.3)	156.9 (45.7)	-18.1	528.2	343.6	184.6	34.0
2003-04	196.7 (29.5)	237.6 (48.6)	-41.0	666.0	489.1	176.9	37.6
2004-05	184.3 (24.3)	344.2 (50.8)	-159.9	759.6	677.7	81.9	36.8
2005-06	273.2 (26.4)	358.4 (48.4)	-85.2	1035.0	741.1	293.8	35.6
2006-07	268.9 (22.6)	572.2 (51.2)	-303.3	1190.8	1117.9	73.0	36.4
2007-08	351.7 (25.2)	794.3 (53.4)	-442.6	1393.7	1486.9	-93.1	39.8
2008-09	363.1 (23.4)	859.9 (52.5)	-496.8	1548.5	1636.6	-88.1	38.4
2009-10	359.7 (26.7)	1095.4 (60.0)	-735.7	1349.4	1824.9	-475.5	45.8
2010-11	553.0 (29.3)	1807.6 (61.9)	-1254.7	1889.1	2919.6	-1030.5	49.1
2011-12	713.9 (27.0)	2338.7 (60.6)	-1624.8	2644.0	3860.3	-1216.4	46.9
2012-13	735.4 (26.5)	2130.3 (58.6)	-1395.0	2773.7	3634.7	-861.0	44.7
2013-14	673.1 (25.1)	2191.7 (63.9)	-1518.63	2679.1	3430.2	-751.0	46.9
2014-15	675.2 (24.8)	2145.0 (65.9)	-1469.8	2726.1	3253.6	-527.5	47.2
Growth (%)	16.8	26.3		16.6	23.1		

Figures in parentheses show the percentage share of rubber and rubber products in India's total rubber and rubber products exports and import.

Source: Export import data bank, Department of Commerce, Government of India.

trade in rubber and rubber products with the RTAs has been characterised by a significant increase in the negative balance of trade and it was US \$ 1469.8 million during the year 2014-15. Secondly, higher growth rates were recorded in the value of imports than the exports with the RTAs as well as with world. Thirdly, the relative share of imports of rubber and rubber products from the RTAs exhibited an increasing trend in relation to the comparative stability of exports during the entire period of analysis. The imports from the RTAs showed higher growth rate than that of India's total imports of rubber and rubber products during the period under study. To a large extent, India's higher

negative balance of trade with the RTAs has been minimised by the surplus generated with rest of the world.

Segment-wise balance of trade in rubber and rubber products

The composition of India's trade with countries involved in the 11 RTAs showed the highest growth rate in imports of raw materials. The pivotal role of raw materials in determining India's negative balance of trade in rubber and rubber products with the 11 RTAs is evident from Table 3. Except in the case of intermediate products, growth rates in value of imports were higher than the exports. The higher growth rates in imports of raw materials and finished

Table 3. External trade in raw materials, intermediate and finished rubber products with the RTAs (US \$ million)

Year	Raw material			Intermediate			Finished products		
	Exports	Imports	Balance of trade	Exports	Imports	Balance of trade	Exports	Imports	Balance of trade
2000-01	3.9	68.3	-64.4	2.2	2.5	-0.3	86.5	60.7	25.8
2001-02	5.0	80.7	-75.8	2.1	4.6	-2.5	83.7	64.0	19.7
2002-03	25.2	84.3	-59.1	2.5	6.2	-3.7	111.3	66.5	44.8
2003-04	46.0	140.8	-94.7	3.2	6.6	-3.4	147.4	90.3	57.2
2004-05	39.3	215.4	-176.1	4.5	9.5	-5.0	140.4	119.3	21.1
2005-06	83.8	195.7	-111.9	7.6	12.7	-5.1	181.8	150.0	31.8
2006-07	85.5	318.2	-232.8	8.1	17.7	-9.6	175.3	236.3	-61.0
2007-08	103.5	399.6	-296.2	8.9	23.7	-14.8	239.3	370.9	-131.6
2008-09	99.0	422.9	-324.0	14.7	21.1	-6.4	249.4	415.8	-166.5
2009-10	59.8	608.5	-548.7	19.5	22.9	-3.5	280.5	464.1	-183.5
2010-11	134.7	1071.5	-936.9	24.4	29.2	-4.8	393.9	706.9	-313.0
2011-12	128.2	1585.7	-1457.5	31.5	41.0	-9.5	554.2	712.0	-157.8
2012-13	117.4	1384.9	-1267.6	29.4	47.8	-18.4	588.6	697.6	-109.1
2013-14	71.9	1489.3	-1417.4	29.2	38.7	-9.5	571.9	663.7	-91.8
2014-15	68.7	1372.5	-1303.8	30.6	48.1	-17.5	575.9	724.4	-148.5
Growth (%)	20.0	28.2		25.3	22		16.5	23.7	

Source: Export Import data bank, Department of Commerce, Government of India.

rubber products than exports from India are indicators of (i) growing domestic market size; and (ii) challenges of the domestic rubber sector. The highest growth rate in value of imports was observed in the case of raw materials. The share of raw materials in total value of India's imports of rubber and rubber products from the countries involved in RTAs increased from around 52 per cent in 2000-01 to 64 per cent in 2014-15 and the share of finished rubber products declined from 46 per cent to around 34 per cent. While the raw material import was dominated by import of NR (53.6 %) and SR (46.3 %) the share of reclaimed rubber in the total value of import of raw materials was only 0.09 per cent during 2000-01 to 2014-15. Another important feature is the erratic

negative balance of trade observed in finished rubber products since 2006 coinciding with the increases in the number of RTAs. Among the finished rubber products, the highest share (45.6%) and growth rate (35.2 %) in imports were shown by new pneumatic tyres. China (47.4 %), Japan (17.6 %) and Thailand (17.1 %) were the major exporters of new pneumatic tyres among the RTA member countries to India during 2014-15.

Import concentration of NR and SR

The pattern of raw material imports requires further analysis being the predominant component in the imports from the countries involved in the RTAs. The four country concentration of imports of NR

Table 4. **Import of NR and SR from the top four countries (2010-11 to 2014-15)**

Country	NR			Country	SR		
	Membership in RTAs	Average Value of imports (US \$ million)	Share in total NR imports (%)		Membership in RTAs	Average Value of imports (US \$ million)	Share in total SR imports (%)
Indonesia	AIFTA	337.6	41.3	Korea RP	APTA, India-Korea CEPA	366.1	28.4
Thailand	AIFTA	228.3	27.9	Russia	--	196.1	15.2
Vietnam Soc. Rep.	AIFTA	150.6	18.4	USA	--	120.0	9.3
Malaysia	AIFTA, Indo-Malaysia CECA	35.6	4.4	Japan	Indo-Japan CEPA	117.9	9.1
Total		752.0	91.9	Total		800.0	62.0

Source: Export Import data bank, Department of Commerce, Government of India.

and SR during the past five years is given in Table 4. In India's total value of import of NR (US \$818.29 million), 91.9 per cent was from four ASEAN member countries. Along with membership in ASEAN Malaysia has also entered into a CECA with India. However, NR is included in the exclusion list of India under AIFTA and also has exempted from any tariff concession under India-Malaysia CECA. Conversely, the total value of import of SR was US \$1291.386 million and around 62 per cent of the import of SR was from the four countries *viz.* Korea, Russia, USA and Japan. Among the four countries Korea and Japan have trade agreements with India. Korea is a member of APTA and also has a CEPA with India and thereby eligible for duty free access to various forms of SR into the Indian market.

Balance of trade in NR

Among the constituents in the raw material segment, NR exhibited the highest growth (39.5 %) and share (53.6 %) in total value of imports from the 11 RTAs during the past fifteen years. However, while all

major forms of NR are excluded from tariff reduction/elimination under AIFTA and Indo-Malaysia CECA various forms of SR

Table 5. **India's balance of trade of different forms of NR (HS 4001) with RTA member countries (US \$ million)**

Year	Export	Import	BT
2000-01	2.4	6.1	-3.7
2001-02	2.4	29.7	-27.3
2002-03	22.2	20.0	2.1
2003-04	42.7	47.2	-4.5
2004-05	36.4	95.1	-58.8
2005-06	69.0	61.7	7.4
2006-07	75.4	173.4	-98.0
2007-08	86.8	194.5	-107.7
2008-09	67.5	202.2	-134.7
2009-10	32.8	327.3	-294.5
2010-11	96.6	600.9	-504.3
2011-12	67.8	849.3	-781.6
2012-13	67.7	798.8	-731.1
2013-14	18.3	868.9	-850.7
2014-15	2.5	787.8	-785.4
Growth (%)	7.9	39.5	

Source: Export Import data bank, Department of Commerce, Government of India.

are included in the tariff elimination list under Indo-Korea CEPA and Indo-Japan CEPA. Table 5 shows the total value of India's external trade in NR with the 11 RTAs. The negative balance of trade during 2014-15 was US \$ 785.35 million.

Technically, though the facility of preferential tariff/duty exemption for NR imports are available only to imports from Bangladesh, Sri Lanka, China, Laos, Korea, Afghanistan, Maldives, Nepal and Bhutan a lion's share of India's NR import is from members of ASEAN. In the total volume of NR imported into India, technically specified natural rubber had the largest share (58.8%) followed by smoked sheets (31.2%) (GOI, 2015a). In effect, the growing dependence on NR imports and the resultant growth in the negative balance of trade are indicative of inherent constraints of India's NR production sector to meet the challenges of a growing domestic market. In the on-going process of structural adjustments within the dominant rubber smallholder sector, not only the organisation of production is bound to undergo important changes but also the primary processing of NR is on the verge of major

shake-ups due to changes in the composition of domestic market.

CONCLUSION

Though India was a signatory to Bangkok Agreement in 1975 it had been a hesitant participant in the RTAs till the mid-2000s. From a policy angle, the higher protection provided to the raw materials segment by India under the RTAs has been inadequate to contain the surge in imports. Conversely, a liberal tariff policy on value added rubber products led to steady increases in imports, especially since the implementation of APTA in 2005. In effect, the inverted duty structure pursued by India on rubber and rubber products did not have the desired results in the context of the on-going process of market integration. The emerging trends in the balance of trade under the RTAs revealed the fragility of inherited policy framework in addressing the challenges of market integration. In this context, it is imperative to focus on comprehensive policy approaches based on the interconnectedness of India's rubber sector rather than segmented *ad-hoc* measures generating vicious circles of paradoxes.

NOTES

1. In a PTA, two or more partners agree to reduce tariffs on agreed number of tariff lines. In FTAs, tariffs on items covering substantial bilateral trade are eliminated between the partner countries; however each maintains individual tariff structure for non-members. The key difference between an FTA and a PTA is that while in a PTA there is a positive list of products on which duty is to be reduced; in an FTA there is a negative list on which duty is not reduced or eliminated. Comprehensive Economic Cooperation Agreement (CECA) and Comprehensive Economic Partnership Agreement (CEPA) describe agreements which consist of an integrated package on goods, services and investment along with other areas including IPR, competition etc. While a traditional FTA focuses mainly on goods; a CECA/CEPA is more ambitious in terms of a holistic coverage of many areas like services, investment, competition, government procurement, disputes etc. (GoI, 2014).
2. India has also extended duty free access to imports of various forms of NR and rubber products to Tanzania and Cambodia under Duty Free Tariff Preference Scheme for Least Developed Countries (Rubber Board, 2016).
3. Though India signed its first trade agreement (Bangkok Agreement) in 1975 with Bangladesh, Sri Lanka and Laos, it was only after the removal of quantitative restrictions (QRs) in 2001, the

government lost control over limiting the import of NR. Moreover, the countries involved in the agreement were not major producers or

exporters of rubber and rubber products. Therefore, the period of study is limited to the last fifteen years (ie., 2000-01 to 2014-15).

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