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# Economic Integration and Rivalry in Asia: Comparing Regional Trade Strategies of China and India

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## Abstract

This paper offers a first attempt at a comparative political economy analysis of preferential trade agreements (PTAs) signed by the two main emerging markets in Asia: China and India. The following questions are addressed. Are the economic, political, and security dynamics behind the PTA strategies of the countries in question different or similar? Do we witness action–reaction processes when it comes to PTA strategies of China and India? And, finally, does one, or a particular mixture of (economic, domestic, security) conditions, help explain variation or similarity in depth, scope and target countries of the PTAs signed by these two countries? The questions are answered using a combination of interviews and primary and secondary sources. We envisage expanding on the paper at a later date to include the cases of Japan and South Korea and comparing all four cases with the help of a fuzzy–set qualitative comparative analysis (fsQCA).

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## I. INTRODUCTION<sup>1</sup>

Until the end of the 1990s, trade cooperation in Asia was mainly driven by regional integration projects such as the Association of Southeast Asian Nations (ASEAN) and the Asia-Pacific Economic Cooperation (APEC). In other words, for a long time Asia was an exception to the worldwide trend towards a proliferation of preferential trade agreements (PTAs). This situation has changed drastically over the last decade during which Asian countries have become among the most active in the world when it comes to negotiating and signing PTAs.

In recent years scholars have started to look at this phenomenon extensively (e.g. Aggarwal and Koo 2006; Dieter 2013; Dent 2010; 2006; Feridhanusetyawan and Lankes 2005; Kawai and Wignaraja 2013; Munakata 2006). The focus of this literature has, however, mainly been on the extent to which external economic and political shocks, as well as systemic changes, have influenced PTA formation in Asia. Although these studies have convincingly shown that external shocks have played an important role in the proliferation of PTAs in Asia, they leave some fundamental questions unanswered. For instance, why have some countries in Asia signed many PTAs, while others are only involved in a few? There is a great variety in the number of PTAs signed by individual countries and general explanations of the type mentioned above cannot explain this variation. The same goes for why Asian countries choose to sign PTAs with some countries and not with others. Regionalism in Asia consists of a complex web of PTAs, often referred to as a “noodle bowl” (Baldwin 2008), and to make sense of the rationale leading Asian countries to choose certain PTA partners (over others) requires more fine-grained explanations than the ones provided by the “external shocks” literature. A final interesting question that is left unanswered by the general external factors literature is why PTAs in Asia differ so much in terms of design (particularly their depth) and what the effects of these design differences are.

As research on PTAs in other regions has shown, this type of question can only be answered by looking at the domestic PTA decision-making process (Hiscox 2002). However, surprisingly little attention has so far been paid to the domestic politics behind Asian PTA decision-making. This stands in sharp contrast to the large body of research on domestic decision-making in the context of PTA formation in other regions, in particular Europe (e.g. Dür 2007; Eckhardt and Poletti 2014; Elsig and Dupont 2012; Hayes 1993) and North America (e.g. Destler 1995; Feinberg 2002; Milner and Rosendorff 1996; Schott 2004). This paper, which is part of a larger project on new economic regionalism in Asia, aims at improving this state of affairs by analyzing and comparing the political economy of regional trade strategies (particularly PTAs) of China and India.

We structure this paper as follows. We first contextualize the study by defining PTAs and looking at the evolution of PTAs in Asia, after which we provide an overview of the existing literature and indicate its limitations. In section IV we present four political and economic factors that may shape a country's PTA policies. Subsequently, we say a few words about case selection and then use the factors presented in section IV to analyze and compare China and

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<sup>1</sup> An earlier version of this paper was presented at the International Studies Association Annual Convention, 26-29 March 2014, Toronto, Canada. We wish to thank Susan Kaplan for her valuable editing suggestions.

India's PTA policy. Finally, we present some preliminary conclusions and an agenda for further enquiry.

## **II. PTAs: DEFINITION AND EVOLUTION IN ASIA**

What is a PTA? A PTA is based on an intergovernmental treaty between two or more countries. All PTA partners grant each other preferential market access for goods, services, investments or labor, which means, for instance, that products imported from a PTA member are subject to lower trade barriers than products stemming from non-PTA signatory countries. PTAs usually do not cover all trade between members and the products, issue areas, etc. that are included in the agreement vary from one PTA to the other (Panagariya 1999).

Ever since the late 1980s and the beginning of the 1990s there has been a “proliferation” of PTAs (Mansfield 1998), a development often described as one of the most important changes in the international trading system in the last two decades. To illustrate: between 1990 and 2009, 422 new PTAs were signed, whereas, in the preceding 20 years (1970–1989) only 102 agreements had been signed. In other words, during the last two decades, the number of PTAs formed worldwide has increased by more than 400 percent. As a result of this worldwide surge in the number of PTAs signed, every World Trade Organization (WTO) Member is now part of (or is currently negotiating) at least one PTA (Dür et al. 2014). This re-emergence of regionalism in the international trade policy landscape over the last twenty years was, at first, mainly the result of attempts by the European Union (EU) and the members of the European Free Trade Association (EFTA) to stabilize trade relations with emerging democracies in Middle and Eastern Europe during the aftermath of the Cold War. After the turn of the century, however, the process of the rapid increase in the number of PTAs being signed is increasingly driven by agreements between emerging economies and/or developing countries (Dür et al. 2014).

For a long time Asia was an exception to the worldwide trend towards a proliferation of PTAs, as, until the end of the 1990s, hardly any PTA activity took place in the region. However, this situation has changed drastically over the last decade. Since 2000, Asian countries have become among the most active in the world when it comes to negotiating and signing PTAs. The number of PTAs in Asia rose from only three in 2000 to more than 70 at the time of writing, and many more are in the pipeline (Kawai and Wignaraja 2013). As Figure 1 and Table 1 show, the most active PTA participants in Asia are Singapore (with 19 PTAs signed and 38 PTAs under negotiation), followed by China (14 signed and 27 in the pipeline), India (13 and 34), Japan (13 and 26), Malaysia (12 and 27), Thailand (12 and 29) and South Korea (10 and 32). Most other important Asian economies are party to between 5 and 10 PTAs, while many more are in the pipeline. As a result, countries in Asia are now participating in almost half of the PTAs signed in the last decade, while their participation in PTA activity in the 1990s was less than 5 percent (World Trade Organization 2011).

**[Figure 1 and Table 1 about here]**

### III. LITERATURE REVIEW

The increased PTA activity in Asia has generated a vast literature. Economists have tried to explain the growing interest in PTAs by Asian countries by pointing first and foremost to the expected gains at the aggregate level (for an overview of this literature see Aggarwal and Lee 2011). These studies use simulation estimation techniques to show the considerable economic gains of PTAs and suggest that Asian nations seek a) to sign PTAs with as many trading partners as possible in order to maximize economic benefits from trade and investment and b) to open negotiations with key trading partners before their rivals get the chance to do so. This literature may show that PTAs matter economically, but it is unable to explain the variation in PTA partner choice and the huge differences between PTAs in terms of overall ambitions and commitments reflected in depth of concessions and flexibility clauses or opt-outs.

When it comes to PTA partner selection, there is another strand of economic literature, which has put forward a somewhat more compelling argument than the aforementioned literature focusing on expected economic gains: namely, the gravity model (e.g. Urata and Okabe 2010). The basic argument of the gravity model is as follows. Countries base their decision to sign PTAs on the economic size of and the geographical distance from the trading partner. This is because bigger economies offer more opportunities to increase foreign trade and geographical proximity offers the benefit of relatively low transaction costs – which in turn facilitates trade expansion – and has the additional advantage of easier policy coordination between PTA partners. According to this logic, Asian countries are thus expected to sign PTAs with sizable economies within the region in order to maximize welfare gains, while steering away from PTAs with small economies and/or countries in other regions as these are less likely to bring about positive welfare effects. Yet, when looking at the PTA patterns in Asia it becomes clear that the gravity model is of little use in trying to explain PTA formation in this part of the world. When we look only at China and India, the focus of this study, we see that both have signed several agreements with countries outside the region, as well as plenty of agreements with small (Asian and non-Asian) economies. What is more, China (in contrast to India) has so far not signed any agreements with the regional economic heavyweights, South Korea and Japan, and there is no sign of a PTA between China and India themselves. In addition, the gravity model fails to capture the differences in depth and scope of the agreements signed.

So, explanations that focus purely on economic reasons for PTA formation in Asia are not especially convincing. As a response, some scholars have started to look at the political side of the equation (Aggarwal and Koo 2006; Asia Development Bank 2008; Dent 2006; Kawai 2005). The main focus in this regard has been on the extent to which external economic and political shocks, as well as systemic changes, have contributed to PTA proliferation in Asia as a whole. Some have argued in this regard that PTAs in Asia are a response to the inability of existing regional (e.g. APEC) and global (WTO) regimes to introduce any meaningful initiatives to liberalize trade multilaterally. Others point to the financial crisis that hit Asia the end of the 1990s, which led to the conviction among policy-makers that, in order to lower the risk of such crises in the future, more regional cooperation in the areas of investment and trade was needed. Again others stress that the increased and successful regional economic integration in

other parts of the world – most notably, in the EU and the US – led Asian countries to decide to sign PTAs themselves.

Although we do not question that external shocks may be an important driver for PTA formation in Asia, we do think that the aforementioned literature has some important (interrelated) shortcomings. First, it fails to capture, as Aggarwal and Lee (2010: 2) put it, “the crucial differences in national responses to common external shocks” and, like the economic literature mentioned above, it says nothing about variation in partner choice and the interesting differences in terms of depth and scope of the PTAs signed. Again, we do not deny that external shocks matter, but we argue that a) countries may respond differently to external shocks and b) external shocks are just one of several factors that influence decisions on PTAs.

Second, and interrelated, is that by “black-boxing” the domestic political economy in individual Asian countries, the aforementioned literature does not account for cross-country variation in terms of decision-making structures and other domestic political factors that may shape PTA policies. The way Asian countries decide on economic policy in general, and PTA policy in particular, varies widely. In this paper we focus on the differences that exist between China and India’s PTA policy.<sup>2</sup> What is more, in each society there are different groupings, which either win or lose from the signing of PTAs, and try to protect their respective vested interests. Important, in this regard, are government officials at the central and local level, influential officials at the various ministries, chief executive officers of (state-owned) enterprises, managers of big privately owned firms (both domestic and foreign), as well as the different interests across regions and provinces.

In other words, we argue that to make sense of the rationale leading Asian countries to choose certain PTA partners (over others), as well as the variation in depth and scope of these agreements, we require more fine-grained explanations than the ones provided by economists and the “external shocks” literature. To be sure, scholars have recently started to analyze (aspects of) PTA strategies of Asian countries individually (Antkiewicz, and Whalley 2005; Chaisse et al 2011; Solis 2009). However, a comparative political economy analysis of PTA negotiations and outcomes that includes domestic as well as structural factors by the two (and later, four) main Asian economies has not yet been undertaken, to the best of our knowledge.

#### **IV. THE POLITICAL ECONOMY OF PTA FORMATION**

Political economy considerations are often an important driver for PTA formation. The political economy literature on PTAs has put forward several reasons as to why countries are compelled to sign this type of agreement (for a good overview of this literature see Ravenhill 2014). We focus on four of these arguments; the first two have a more political nature and the other two, more of an economic one.

First, PTAs can be used to improve (diplomatic) relations with neighboring states and/or to enhance regional security. Where a relationship between countries is marked by conflict, or when there is no tradition of partnership between the countries in question, economic

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<sup>2</sup> As already stated, our final aim is to capture these differences for at least four cases – China, Japan, India and South Korea – in a comparative way.

cooperation may play a crucial role in a process of building trust and confidence. PTAs are usually seen as one of the key economic cooperation mechanisms through which states can achieve such political ends (Ravenhill 2014). If a government signs PTAs mainly with the purpose of building friendly relationships with its neighbors, one would obviously expect to find that the country in question has a PTA strategy which is aimed entirely at negotiating agreements with regional partners. What is more, if governments are interested primarily in the beneficial diplomatic or security effects of a PTA, and not so much in the economic implications, they are most likely to opt for shallow agreements that can be negotiated relatively quickly. It does not make much sense in such a situation to suggest or accept the inclusion of far-reaching behind-the-border measures (e.g. intellectual property rights (IPRs), government procurement and industrial standards) or of other non-WTO areas (special sectoral arrangements, possible tax harmonization, innovative dispute settlement, coverage of environment and non-trade matters, and financial integration).

Second, governments may use PTAs as a way to gain more bargaining power vis-à-vis their trading partners. This argument is usually made with reference to least developed countries (LDCs) and how PTAs can help to enhance their bargaining power in international negotiations. It is argued that “by pooling their diplomatic resources in a regional arrangement LDCs are sometimes able to achieve greater prominence in international relations, to negotiate agreements that would not be available if they had acted alone, and to ensure the election of their representatives to key positions in international organizations” (World Bank 2000; quoted in Ravenhill 2008: 179). But developed or emerging economies may also have an incentive to use PTAs as a way to achieve a better bargaining position during international (trade) negotiations. By signing PTAs with countries that are on the same wavelength, it is possible for governments to increase their power within the WTO (Ravenhill 2014). When governments sign PTAs mainly in order to gain bargaining power, one would again expect them to be relatively shallow agreements. In this case we would expect these agreements to be between economies that have similarities in terms of economic structure or stage of development.

Third, the decision on whether or not to sign a PTA, as well as the depth and scope of the agreement, may be the result of a domestic political battle between societal interests. Just like any other trade policy decision, the signing of a PTA has distributional consequences and hence leads to diverging policy preferences among domestic actors. That is, actors to whom the net result of international trade is beneficial prefer liberal trade policies, while actors who lose overall are expected to favor protection. It is argued that in general those in favor of joining a PTA consist of the nation’s export-dependent firms, as they reap the lion’s share of the benefits stemming from reciprocal (but not unilateral and multilateral) trade liberalization and are likely to suffer from discrimination if the nation stays out of the PTA.<sup>3</sup> The forces against PTA membership, on the other hand, are generally associated with import-competing firms that are

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<sup>3</sup> Recent research shows that import-dependent firms may also have an incentive and the capacity to mobilize in support of PTA formation (Eckhardt and Poletti 2014; for a further discussion on import-dependent firms and trade policy see Eckhardt 2013).

likely to lose from the liberalization as a result of the signing of the PTA (Baldwin 2006; Dür 2007; Gilligan 1997; Milner 1997).<sup>4</sup>

The capacity of domestic actors to influence trade policy nevertheless depends on their access to the policy-making process. The literature on veto players (see in particular Tsebelis 1995) argues that in order to change policies, a number of actors (individual or collective) need to agree on change. These actors may be specified by a constitution as in the USA (e.g. the president, House, or Senate) or by the political system (members of a government coalition, e.g. in Europe) where the former are defined as institutional and the latter as partisan veto players (Tsebelis 2002). Outcomes that may alter the status quo (or win-set) depend on three main aspects: a) the number of veto players, b) the ideological distances between them, and c) their internal cohesion. Hence, both actors (such as business associations of import competing and export sectors) and institutional structures (defining the access these actors have to the policy-making process) matter when accounting for the influence of domestic societal interests in trade policy.

Fourth, trade diversion from other countries' bilateral agreements may spur countries to engage in their own PTAs in a "domino effect." That is, a PTA creates distortions by lowering tariffs for its members vis-à-vis third countries, which, under the higher tariffs of most favored nation (MFN) status, would lose market shares. These "domino effects" have been shown to be substantial in other cases such as the in the context of European and North American (NAFTA) integration (Baldwin 1995). It would be interesting to see if these considerations also play a role in the domestic decision making in Asian states.

## V. CASE SELECTION

In this paper, we test the effect of the four aforementioned potential logics for China and India's PTA policy. There are several reasons why this paper focuses on China and India. First, China and India are among the most active countries in the world when it comes to pushing for PTAs in Asia and the world as a whole. As Table 1 illustrates, China and India top the list of the most active PTA-promoting countries in Asia. This should come as no surprise, as these are two of the most (some may even say *the* most) important emerging markets in the world – true economic powerhouses and attractive potential PTA partners for third countries. Furthermore, China and India are not only geopolitical and economic partners, but also rivals; hence the need to examine how far the relationship between the two countries has had an effect on their respective PTA policies. Finally, although both are big and diverse countries, their political systems differ substantially. This is relevant inasmuch as the political system defines access points and accordingly the type and number of interest groups and veto players represented in trade policy-making.

In what follows, taking the arguments listed in the previous section, we seek to ascertain the influence of inter alia (geo)political considerations, trade coalitions, societal interests and domestic institutions, as well as the effects of trade diversion in the expansion of PTAs first by China and then by India. We are particularly interested in explaining the

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<sup>4</sup> Consumers and taxpayers are generally seen as societal interests of second-order importance.

strengthening (deepening) of PTAs, which is evident for China and somewhat more ambiguous in the case of India, and the choice of PTA partners. Our analysis is based on a combination of in-depth interviews<sup>5</sup> and primary and secondary sources.

## **VI. CHINA'S PTA POLICY**

When looking at China's PTA formation over time we see that, like other Asian countries (see Figure 1 and Table 1), China was not an active user of PTAs until 2000. On the contrary, the only agreement China was part of at that time was the Asia-Pacific Trade Agreement (APTA), also known as the Bangkok agreement, which was signed in 1975 by China, Bangladesh, India, Laos, South Korea and Sri Lanka. This agreement was very shallow and covered only a limited number of goods and hence did not lead to any meaningful trade liberalization between the signatory countries.

It was not until the beginning of the 21st century that China started to actively pursue the signing of PTAs. Since then, China has signed 14 PTAs, while another 13 agreements are proposed or under negotiation (see Figure 1 and Table 1). Looking at China's PTA partners (see Table 2), we see that China has signed several agreements with neighboring countries. One of the most important developments in this regard has been the creation of the world's largest (measured by the number of inhabitants) free trade zone: the ASEAN-China Trade Area (ACFTA). Furthermore, China has signed agreements with several small developing and emerging economies outside Asia (Chile, Costa Rica, Pakistan and Peru) and, more recently, also with some small developed countries (New Zealand, Iceland and Switzerland). The most important agreements in the pipeline at the moment are the PTAs with Australia (under negotiation since 2005), South Korea (since 2012) and with South Korea/Japan (also since 2012).

Besides the partner countries and the year in which each of the agreements were signed, we have also looked at the depth of the agreements. For the latter, we used data gathered by Dür et al. (2014). In their dataset, the authors have included more than 700 PTAs signed after 1945 worldwide, and have measured their depth using<sup>6</sup> a scale of 0 to 7, whereby a depth index score of 0 indicates that the PTA is very shallow whereas a score of 7 means the PTA is very deep. We have included the depth index scores of a selected number of China's PTAs in Table 2. What becomes clear from these figures is that China's early PTAs all had a score of 2 and were thus relatively shallow agreements. Over time, however, the scores have increased substantially: all recent PTAs have a score of either 4 or 5. As a result, China now has agreements that are among the deepest in the world.

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<sup>5</sup> All interviews were conducted by the authors. A list of interviewees is available upon request.

<sup>6</sup> Depth is measured through an additive index that combines seven key provisions that can be included in PTAs (Dür et al. 2014). The first provision captures whether the agreement foresees that all tariffs should be reduced to zero. The other six provisions code for whether the agreement contains any substantive provisions in: services trade, investments, standards, public procurement, competition and intellectual property rights. The second measure of depth relies on latent trait analysis." See: <http://www.designoftradeagreements.org/wp-content/uploads/Depth-notes.pdf>. Last accessed 17.03.2014.



In this section we try to make sense of the aforementioned patterns and shifts in China's PTA formation by looking at the four reasons, mentioned in section III, as to why countries are compelled to sign PTAs.

**[Table 2 about here]**

*Regional economic cooperation and trust building*

When China first started to engage in signing PTAs, it focused on small neighboring countries. It is fair to say that these early PTAs were mainly aimed at building friendly relationships with its neighbors and were not driven by any real economic rationale. It is telling that the first PTAs China started to negotiate were with Macao, Hong Kong and the ASEAN member states and that these agreements were rather shallow (see Table 2). The PTA with the ASEAN nations was particularly important in light of China's ambition to convince its neighbors of its "peaceful rise."<sup>7</sup> At the end of the 1990s there were clear political tensions between China and (some) ASEAN countries and there was a widespread feeling of distrust among the ASEAN member states towards China. China realized that something needed to be done to improve its diplomatic relations with ASEAN and offering a PTA was part of the strategy to improve the political ties. So when then Chinese Premier Zhu Rongji visited Singapore in 2000, he declared that China should open negotiations with ASEAN on a PTA. The negotiations were opened soon afterwards, and not much later (in 2002) the two sides signed a framework agreement for a PTA.<sup>8</sup>

Signing PTAs with neighboring countries is in line with a broader effort by the Chinese leadership to use regional agreements to smooth diplomatic relations with countries in China's direct vicinity, which in turn is part of China's ambition to play a leadership role in the region (Dieter 2013; Ravenhill and Jiang 2009). In order to increase its regional status with countries in the region, China goes to great lengths to convince small(er) regional economies, in particular, that existing fears regarding its leadership ambitions are unjustified. Negotiating bilateral agreements is part of that strategy. Besides PTAs, China has also signed agreements that are military in nature. One such example is the signing by China of the ASEAN's Treaty of Amity and Cooperation (TAC) in 2003. By signing this non-aggression treaty, China – which was the first ever non-ASEAN country to do so – hoped to allay the fears of the ASEAN members about China's military intentions (Narine 2007).

By signing regional PTAs (and other agreements), China is trying to situate itself favorably *vis-à-vis* other countries in its relations with regional partners and, by doing so, to increase its influence in the region. China's biggest rival when it comes to regional leadership is Japan and, therefore, when the Chinese government talks about its PTA strategy it often refers explicitly to "competition with Japan to establish leadership credentials in East Asia" as a key diplomatic priority (Sally 2006: 312; see also Munakata 2006). China's PTA policy may also be

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<sup>7</sup> Interview Chinese economist (I), September 13 2013, Beijing.

<sup>8</sup> Interview Chinese economist (II), November 15 2013, Beijing.

a reaction to recent initiatives by the US to (re)establish its role as a leader in the region (Wan 2010).

China's PTA policy can thus be seen as part of a broader foreign policy strategy aimed at building friendly relationships with its neighbors. However, this is only part of the story. As Table 2 shows, over time, China has also turned its attention to the small developing and emerging economies outside the region. How can we explain this shift towards PTA formation with non-regional trading partners?

#### *Gaining bargaining power*

Over the years, China has signed agreements with Chile (2005) Pakistan (2006 trade and 2009 services), Peru (2009) and Costa Rica (2011). These agreements obviously cannot be explained by the desire to build the trust of neighboring countries. One reason for China to sign PTAs with these countries, however, is that these countries were among the first to recognize China's full market economy status and the Chinese government wanted to demonstrate its gratitude for this gesture. Also in the case of Costa Rica, the PTA may have been influenced by its breaking of diplomatic relations with Taiwan in 2007.<sup>9</sup> Just as important, however, is that China increasingly seems to use the signing of PTAs as a tool to gain bargaining power vis-à-vis the EU, the US and other groupings of developed countries (Aggarwal and Koo 2006). The underlying argument here is as follows. In order to enhance its bargaining position within international negotiations and organizations like the WTO, China intends to become the "natural leader of a developing country coalition within the global economic system" (Ravenhill and Jiang 2009: 32). By signing PTAs with developing countries, and hence offering their firms access to the Chinese market, China hopes to be able to convince these countries to support China during international negotiations (Wan 2010).

China's wish to gain bargaining power against the world's big trading powers may partly explain why it has signed agreements with some of the aforementioned non-Asian developing and emerging economies. Yet, there are several trends in China's PTA policy that cannot be explained by this logic. First, the decision to sign PTAs with developed countries such as New Zealand, Switzerland and Iceland. Second, the clear shift towards deeper agreements and PTAs with a much broader scope (see Table 2). We need to look at other factors to account for these developments.

#### *Domestic economic interests*

Lobbying by societal interests often plays an important role in trade policy-making. Actors to whom the net result of a PTA is beneficial (export-dependent and import-dependent firms) may organize politically and push their governments to join the PTA in question, whereas actors who lose overall (import-competitors) may lobby against it.

It is often argued that in the context of PTAs in Asia pressure from societal interests does not play a very prominent role because (a) evidence points to a generally limited economic impact of PTAs in Asia and, as a result, firms have no incentive to put pressure on their

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<sup>9</sup> Ibid.

government to pursue or not to pursue PTAs (Capling and Ravenhill 2011; see also James 2006) and b) those winning or losing from PTAs are usually badly organized- and/or not well-represented politically, which means that they have a hard time getting their voices heard during debates on PTAs (Hseu 2006; Wan 2010). This type of thinking fits into a broader literature on the Asian political economy, which suggests that domestic economic policy-making works differently in Asia than elsewhere (Wade 1990; Woo-Cumings 1999). The reason for this is that the domestic institutional setup is different to that of industrialized countries in Europe or the United States where veto players (see our discussion above) are clearly identifiable.

However, scholars looking at China's PTA policy have recently shown that the economic effects of Chinese PTAs (in particular the more recent ones) are significant. Urata and Okabe 2010, for instance, find clear evidence for trade creation effects in the context of China's PTA network. Others have looked at the extent to which China's trade is covered by PTA provisions and find a significant increase in reliance on PTAs over time. Recent figures show that 27% of total Chinese trade now takes place within the setting of a PTA. This means that China's PTA coverage is higher than that of the US (26%) and only slightly lower than that of the EU (34%) (Kawai and Wignaraja 2013). What is more, several of our interviewees<sup>10</sup> confirm that the winners and losers from trade liberalization are increasingly involved in discussions on PTA formation in China.

Based on a first round of interviews, and a (very) preliminary analysis of the political involvement of firms during PTA decision-making in China, we can say the following. Objections towards PTAs in China usually come from import-competing agricultural firms.<sup>11</sup> This may help to explain why China initially refused to discuss agricultural products during PTA talks. This refusal has often been an important obstacle for the successful completion of PTA talks. Ravenhill and Jiang (2009), for instance, show how China's refusal to talk about liberalization of agricultural products led to the stalemate in the PTA negotiations between China and Australia. Another group of firms that has often raised concerns about PTA formation are service providers, which may be why China objected to the inclusion of trade in services in the first PTAs it signed.<sup>12</sup>

Recently, however, China has become more willing to discuss trade in agricultural products, as well as services trade. Most of China's recently signed PTAs have a "comprehensive coverage of agricultural products." The first time China accepted the elimination of tariffs on agricultural products was in its PTA with New Zealand. China accepted the phase-out by 2019 of tariffs on imports on almost all of New Zealand's main agricultural products (Kawai and Wignaraja 2013). When looking at trade in services, we see that China has gradually started to include services trade in its PTAs. At first, China agreed to include at least the key General Agreement on Trade in Services (GATS) principles – such as market access, national treatment, and domestic regulations – but China has since shown itself to be one of the

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<sup>10</sup> Interviews (all in Beijing) with: Chinese government official (I), July 11 2013; Chinese scholar (I), September 9 2013; Chinese economist (I), September 13 2013; Chinese economist (II), November 15 2013; Chinese government official (II), November 18 2013; Chinese scholar (II), November 22 2013.

<sup>11</sup> Interview Chinese economist (II), November 15 2013, Beijing.

<sup>12</sup> Interview Chinese scholar (II), November 22 2013, Beijing.

few Asian countries willing to move beyond its WTO commitments by including GATS-plus commitments.<sup>13</sup> The most comprehensive Chinese PTA in this regard is the agreement with Singapore. In the PTA with Singapore, the coverage of services trade goes beyond GATS to include, for instance, a chapter on the movement of natural persons (Kawai and Wignaraja 2013: 34). Also, in its agreement with Switzerland, China goes beyond its GATS commitments. China has accepted the inclusion of “additional sectors and improvements in areas such as environmental services (waste water treatment, emission and noise control services), financial services (in particular trading in securities), air transport services (aircraft maintenance and repair, ground handling), logistics services (customs clearance services) and for providers of short-term contractual services [e.g. installation and repair of machinery, as well as architectural and engineering services] (Pannatier et al. 2013: 3).

Can this shift – and the fact that overall China’s PTAs have become deeper and more comprehensive – perhaps be explained by an increasing political involvement of firms in favor of PTA formation? More research needs to be done to answer this question satisfactorily, but we can already make a few remarks.

First of all, recent research finds that Chinese exporting firms increasingly make use of PTA preferences. In fact – based on a survey of more than 1000 exporting firms in China, Japan, Malaysia, the Philippines, Singapore, South Korea and Thailand – researchers have shown that Chinese firms are the greatest users of PTA preferences in Asia. As Figure 2 shows, 45% of all Chinese exporting firms use PTA preferences. When plans for using PTAs are also taken into account, almost 80% of Chinese firms either use or plan to use PTA preferences. These figures: a) are substantially higher than those shown by earlier (smaller sample) studies; and b) show that firms in China increasingly acknowledge the economic potential of PTAs. This, in turn, could mean that Chinese exporters are more likely than before to lobby in favor of PTAs. Lobbying is done by both big and small firms. In the latter case, lobbying usually takes place at the local level and local government offices in Beijing often act as conduits or the interests of local firms at the central level.<sup>14</sup>

Second, we analyzed the role of Chinese exporting firms in relation to the PTA between China and Switzerland and found that firms were actively engaged in the decision-making process.<sup>15</sup> Several reasons for this engagement stand out. One is that the PTA with Switzerland is expected to boost Chinese exports to Switzerland. Switzerland is an important and fast growing destination for Chinese products.<sup>16</sup> To illustrate: in the period from 2003 to 2010 (i.e. the years prior to the signing of the PTA), total Chinese exports to Switzerland increased by 113%. Lifting of trade barriers will further increase Chinese exports (SECO and MOFCOM 2010). More importantly, many Chinese companies see the PTA as a great opportunity to develop “their European business model by setting up subsidiaries or branches in Switzerland in order to expand in the European market, given Switzerland's unique position with a free trade

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<sup>13</sup> Interview Chinese economist (II), November 15 2013, Beijing.

<sup>14</sup> Interview Chinese scholar (I), September 9 2013, Beijing.

<sup>15</sup> Interview Chinese economist (II), November 15 2013, Beijing.

<sup>16</sup> The main export products are machinery, textiles, chemical products, watches, metals and metallic products, toys and games, sports equipment and furniture.

treaty network with the [EU] and [EFTA]" (Pannatier et al. 2013: 5). Before the PTA with Switzerland, there was already a strong presence of Chinese companies in Switzerland for this reason and, with the signing of the PTA, this number is expected to increase even further.

**[Figure 2 about here]**

Third, some argue that the formation of PTAs in China seems to be related to the "unbundling of production" in particular, East Asia and the formation of Asia-wide production networks and value chains. For these region-wide production networks/value chains to function optimally, Chinese (and other Asian) firms involved in them need trade barriers to be lowered, as well as harmonization of policies, rules, and standards governing trade and foreign direct investment (FDI). It appears that policy-makers are increasingly aware of the importance of value chains, as well as the potential benefits of the elimination of cross-border impediments and facilitation of trade and FDI for firms in the region. Hence, the signing of PTAs can "be regarded as part of a supporting policy framework for deepening production networks and supply chains formed by global multinational corporations (MNCs) and emerging East Asian firms" (Kawai and Wignaraja 2009, p. 5).

*Competitive regionalism and the domino effect*

As said above, it is often argued that countries sign PTAs as a response to trade diversion effects from other countries' bilateral agreements. Holders of this view have reported that the signing of a PTA often leads to an economic "domino effect" of multiple PTAs being signed by other countries. Ravenhill (2010) argues, however, that in the Asian context, we have witnessed a political rather than an economic domino effect. He puts it as follows: "[t]he explosion of PTAs in [Asia] has been driven by a 'political domino effect,' with governments' primary concern being their potential exclusion from a new dimension of regional diplomacy" (Ravenhill 2010: 23). Others, by contrast, suggest that the boom in Asian PTAs is, just like elsewhere, the result of trade diversion and hence of an economic domino effect (Kawai and Wignaraja 2013; Urata and Okabe 2010).

No matter whether one believes that Asian regionalism is driven by a political or an economic domino effect, China is usually seen as the initiator. After all, China's decision to start negotiations with the members of ASEAN did indeed lead to a series of PTAs being signed by other Asian countries (Munakata, 2006; see also Dieter 2013). That is, after China signed the framework agreement for a PTA with the ASEAN members in 2002, Japan immediately responded by starting its own PTA negotiations with ASEAN, after which South Korea and others followed suit. In other words, when it comes to the initial blossoming of PTAs in Asia, a plausible case can be made that this was the result of competitive (political and/or economic) regionalism initiated by China.

An interesting recent development, casting light on whether competitive regionalism plays a role in China's PTA formation, are the negotiations on the Trans-Pacific Partnership (TPP) Agreement (Lewis 2011; see also Solis 2012). In case of the TPP, China did not show

much interest at first.<sup>17</sup> However, China's Ministry of Commerce (MOFCOM) declared in May 2013 its interest in taking part, perhaps following Japan's participation in the negotiations. China has nonetheless been kept out of the negotiations, given that even if the United States welcomed China's participation, it had added a caveat in that China would have to accept the high standards being negotiated. The latter include provisions on state owned enterprises (SOEs) among others that China will find hard to accept. Several of our interviewees mentioned the TPP as an important reason for China to step up its PTA efforts. In particular China's recent efforts to sign PTAs with Australia, Japan and South Korea should be seen in light of the ongoing TPP negotiations.<sup>18</sup>

To sum up, a combination of political and economic factors seems to have driven China's PTA policy. Political in the case of the more shallow agreements with neighboring countries and with smaller or far distant ones. Economic in the more recent deeper agreements and as a result of competitive regionalism dynamics, of which the TPP also seems to be an example. Whether India has followed similar dynamics is the focus of the next section.

## VII. INDIA'S PTA POLICY

Before 1998, except for an agreement with Nepal and one with Bhutan, India was not part of any bilateral PTA. It was nevertheless part of the Bangkok agreement (i.e. APTA), the South Asia Preferential Trade Arrangement (SAPTA) and the Global System of Trade Preferences (GSTP). None of these involved significant trade liberalization (Mikic 2011). Starting with Sri Lanka in 1998, India began to actively engage in bilateral PTAs, bringing the present total to eleven (thirteen including agreements with country-blocks). The types of agreements signed by India differ considerably. Only the agreements with Singapore (2005), South Korea (2009), Malaysia (2011) and Japan (2011) are deep agreements likely to have significant trade effects. In addition to its bilateral agreements, India has signed two plurilateral PTAs: India-Mercosur (2004) and India-ASEAN (2009) neither of which are deep agreements.

[Table 3 about here]

### *Regional economic cooperation and trust building*

One possible explanation for the sudden and more recent PTA activism of India has to do with regional cooperation and trust building, particularly the rise of China, together with the desire to avoid marginalization in a time of rapidly changing East and South-East Asian dynamics. The shift in India's PTA strategy termed the 'look East policy' initiated alongside economic reforms in

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<sup>17</sup> A recent interesting development in light of this is that there is now a real discussion in China as to whether or not China should even join the TPP negotiations. At the beginning of 2013 there was not much talk about China's TPP membership, but this changed in April 2013 or thereabouts, when it seemed that a deal between the TPP countries had become feasible (Fan and Yang 2013).

<sup>18</sup> Interview Chinese economist (II), November 15 2013, Beijing; Interview Chinese scholar (II), November 22 2013, Beijing.

1991 and aimed at deepening economic and political linkages within the Asian region gives some weight to this explanation (Chanda and Gopalan 2009).

In order to test whether regional economic cooperation was an important motivation in India's PTA strategy we look into the most likely scenario for such an attempt. If cooperation motivations were determinant, one would expect a large number of shallow agreements aimed at furthering regional ties, rather than deeper agreements aimed at liberalizing trade. We would also expect most PTAs to be concentrated in the immediate region. Testing for this argument we have looked into the depth of India's PTAs (Table 3) using the data of Dür et al. (2014). As noted earlier, this dataset includes data for more than 700 PTAs signed worldwide after 1945 and measures their depth using a scale of 0 to 7 where a score of 0 indicates the agreement is very shallow and 7 indicates that it is very deep. There is some evidence to support this claim given the significant number of shallow agreements with neighboring countries indicating that depth may not have increased over time (as might be expected with deepening economic integration). The agreements with Nepal (1991 and 2009) and Bhutan (1972 and 2006) are particularly indicative of this. The only exceptions to this pattern are the deeper agreements that India has signed with Singapore, South Korea, Malaysia and Japan.

The exceptions mentioned above may be explained by the fact that the partners concerned are all industrialized countries that tend to negotiate deeper agreements. This is not the case for the agreement signed with Chile, which is shallow (as an upper-middle income country Chile also tends to sign deeper agreements), although it could be true for the deeper agreement with Malaysia (which is also in the upper-middle income category). Perhaps the explanation lies in the shift of India's PTA strategy since the early 1990s as a result of economic concerns becoming stronger.

PTA formation has been suggested to result from initiatives by India's trade partners, not only given India's growing importance as an investment and export market, but also for meeting (geo)political objectives, such as counterbalancing China's regional dominance (Chanda and Gopalan 2009). Anecdotal evidence suggests this was an important factor in the India–Japan (2011) PTA, which included substantial concessions towards India, particularly by including the mobility of service providers.<sup>19</sup> The fact that Japan (a country not known for liberal immigration policies) agreed to include the issue of labor mobility in its PTA with India is noteworthy.

#### *Gaining bargaining power*

Unlike China, there is little evidence to suggest that India has used its PTAs in a strategic way to gain bargaining power in trade negotiations. Most of India's PTAs with potential coalition partners remain very shallow and Indian tariffs (relatively speaking) are high. The main reason for this is that India, in contrast to China, as a founding member of the GATT, has a long tradition of forming coalitions in multilateral fora (see Sidhu, Mehta and Jones 2013). India's self-defined identity as a leader of the South and its historical role in coalitions of developing countries at the GATT (and later WTO and other multilateral organizations) indicates long

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<sup>19</sup> Interview academic involved in trade negotiations, January 29 2014, New Delhi.

experience in trade block negotiations most of which took place before India adopted its pro-PTA strategy. It can therefore be said that India has not used the pull of its market with the aim of strengthening coalitions given that previous activism, and a strong developmentalist discourse, already appear to be strong tools for India's coalition building efforts at the WTO.

Regional cooperation and trust-building considerations, but not necessarily attempts at gaining bargaining power, thus appear relevant for explaining India's PTA strategy. Nevertheless, given that more recent PTAs have been deeper, economic considerations are likely to be relevant as well.

#### *Domestic economic interests*

A common element in political economy analyses is observing the role of conflicting domestic interests in promoting or restricting trade. The influence of import competing vis-à-vis export sectors looms large in India given its long history of closed markets and import substitution industrialization (ISI). For the first thirty years after independence (almost until the 1980s) India followed an extremely restrictive licensing regime whose intent was virtually to eliminate imports of consumer goods (Krueger 2010). Given this state of affairs, it is not surprising that India's tariff levels remain among the highest for the larger economies.

Certain industries, however, have become strongly competitive since the reforms launched in the 1990s, particularly in the services sector. One would expect these firms to exert pressure towards trade liberalization. To test whether this argument helps explain Indian PTA policies we have looked at the structure of India's main exports and imports. We first look at trade in goods (See Tables 4 and 5). Except for the United States and China (for imports), trade with all main partners is based on primary products. This would suggest little incentive to further PTAs given that primary products are easily traded and do not face major tariffs. This may also explain why, although economic reforms increased manufacturing exports, no particular category or categories of manufactures has shown exceptional growth, and hence no particular growth engine may be found among them (Krueger 2010). The picture is very different in the service sector where India has rapidly increased its export share. For example, exports of services to the United States grew from 1.9 billion USD in 2000 to 16.9 billion in 2011 – more than eight-fold. In contrast, exports of goods to the United States amounted to 10.7 billion USD in 2000 and 36.2 billion in 2011, which is a much less significant increase.<sup>20</sup>

**[Table 4 about here]**

**[Table 5 about here]**

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<sup>20</sup> USTR: US-India bilateral trade and investment. <http://www.ustr.gov/countries-regions/south-central-asia/india>. Last accessed March 17 2014.



Except for imports originating in China and the United States (which also include chemicals, electronics, and manufactured goods) imports from all India's other main trade partners are mostly primary goods, such as petroleum, jewelry, diamonds and gold. This may also explain why none of India's other main trade partners, except for the two aforementioned, has been an important anti-dumping target for India (see Bown 2012).

Exports of services have experienced substantial growth over the past decade. The service sector, unlike manufacturing, has been active in shaping trade policy. Particularly relevant among these efforts are those of the National Association of Software and Services Companies (NASSCOM) and the Software Technology Park in India (STPI). In particular, they have sought the inclusion of service-export issues such as labor mobility for service suppliers under GATS mode 4 in PTAs.<sup>21</sup> This is an area that potential trade partners have been reluctant to include in PTAs (except in a few cases, such as Japan). Together with a lack of interest by manufacture exporters, this may explain why domestic exporters seem to exert little influence over PTA formation. Furthermore, PTAs have for the most part excluded trade in services and the main goods exported by India already face low tariffs which could be one of the main reasons behind the lack of interest in signing new PTAs or the stalled negotiations on, for example, the India–EU agreement. Furthermore, the benefits of existing PTAs have been mostly disappointing for Indian exporters.<sup>22</sup> Besides, in terms of relative gains, the fact that most countries already have very low tariffs, whereas those of India remain comparatively high, means the costs of signing new PTAs for India are (in relative terms) substantial.

Another reason mentioned by interviewees has to do with the fragmentation of the Indian polity.<sup>23</sup> Five different ministries (with different constituencies) are usually involved in trade negotiations even if the Ministry of Commerce leads them; each has a de facto veto in cases encroaching on their turf. This is in line with the expectations of the literature examining institutional constraints on policy-making and the role of veto players (Tsebelis 2002). It also suggests that the case of India is less dissimilar to industrialized countries than has usually been assumed in Asia.

#### *Competitive regionalism/domino effect*

In addition to regional cooperation, competitive regionalism appears to be another significant motivation for India's recent trade policy. Mikic (2011) argues that India began developing a PTA strategy following the EU's enlargement and attempts by the United States at creating a Free Trade Area of the Americas (FTAA). According to this view, the fear of being locked-out of its main markets was an important motivation for Indian trade officials to commence trade negotiations with SAARC, Mercosur and ASEAN.

Some support for this view comes from the observation that, before 2000, there were few initiatives in the Asian region, in part due to APEC's principle of open regionalism. This state of affairs changed following a number of initiatives, in particular attempts by Japan and South Korea in 1998, followed by initiatives between Chile and South Korea, Singapore and

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<sup>21</sup> Interview Government Official, Ministry of Commerce and Industry, January 27 2014, New Delhi.

<sup>22</sup> Interview economist, Jawaharlal Nehru University, January 7 2014, New Delhi.

<sup>23</sup> Interview Government Official, January 11 2014, New Delhi.

New Zealand, Singapore and Japan, Singapore and the United States, ASEAN and China, ASEAN and Japan, and other ASEAN+ initiatives (Feridhanusetyawan and Lankes 2005). The timing of these initiatives and anecdotal evidence from interviews suggests the drive towards PTA formation in the Asian region acted as an important incentive for Indian policy-makers to engage in bilateral trade negotiations, even when their immediate benefits were not evident.

### **VIII. PRELIMINARY CONCLUSIONS**

This paper has attempted to provide an explanation of the impact of economic, political and security dynamics behind the PTA strategies of China and India, by looking at four possible causes. Following the literature on the political economy of PTA formation, we argue that PTAs may be used: a) to improve (diplomatic) relations with neighboring states and/or to enhance regional security; b) to gain more bargaining power vis-à-vis the country's trading partners; c) to satisfy the demands of domestic economic interests; or d) to avoid trade diversion effects as a result of bilateral trade agreements signed by third countries.

When looking at China and India's PTA policy, we find some evidence of the relevance of regional cooperation and trust-building considerations in both countries. On the other hand, while gaining bargaining power appears to be a relevant motivation for China (which has offered significant access to its vast market to trade partners), the shallow nature of most Indian PTAs and the still relatively high tariffs suggests that this is not the case for India. Perhaps a good explanation for this has to do with the fact that China joined the global trade regime relatively late whereas India was one of its founding members. Whereas India has a long tradition of leading coalitions of developing countries, as a latecomer, China had to first acquire leadership and offering market access to developing countries has been one way of achieving such an aim.

Domestic economic interests also appear to play a stronger role in China than in India, even though the Indian polity is more open than the Chinese one. Partly, the explanation for this difference appears to be the nature of economic interests – strong for Chinese manufacture exporters and relatively weak one for the Indian manufacturing sector – and partly institutional factors. While the service sector has been very active in India, services have not been part of most PTA negotiations. India's goods exports entail mainly primary products that do not face substantial barriers in export markets and thus the influence of manufacturing exporters in shaping India's trade policy is (so far) limited. Service exporters associations such as NASCOMM and STPI, have been influential and have pushed for the inclusion of issues such as service-related mobility of persons (GATS mode 4) in trade negotiations. However, potential PTA partners have generally been reluctant to include these issues and others related to services exports in PTA negotiations. Institutional differences between the two countries also play a relevant role. Despite being more open, the Indian polity is more fragmented with a significant number of veto players which often leads to policy paralysis. The Chinese polity, on the other hand, even if it also faces competing interests, appears to be less vulnerable to blockage.

Finally, on action–reaction processes we find some evidence that competitive regionalism is an important motivation for engaging in PTA formation for both China and

India. Whereas, in the case of China, concerns appear to be more recent (related to attempts at forming macro-trade blocs, particularly the TPP), in the case of India, much earlier events, in particular European enlargement and attempts by the United States at forming a free trade area in the Americas, concerned Indian policy-makers who feared being left out of these increasingly large trade blocs.

Overall, our findings suggest that, in China, political and economic factors are the main factors behind its PTA drive whereas, for India, political factors seem less relevant than security considerations together with economic factors. China appears to have made use of PTAs politically to assuage fears or reward third countries. For India security fears, in particular the generous agreement reached with Japan, appear significant in the shadow of China's rise. Economic factors seem to play a relevant role in both countries, but their salience is mediated by their dissimilar political systems; in particular access points make India much more prone to blockages.

These preliminary findings will be part of a wider comparative study, which will also include the cases of Japan and South Korea. Our aim – with the help of a fuzzy-set qualitative comparative analysis – is to be able to find the combination or combinations of causal patterns (including regional cooperation, bargaining power, domestic interests or competitive regionalism) that best explain PTA formation among the main Asian economies.

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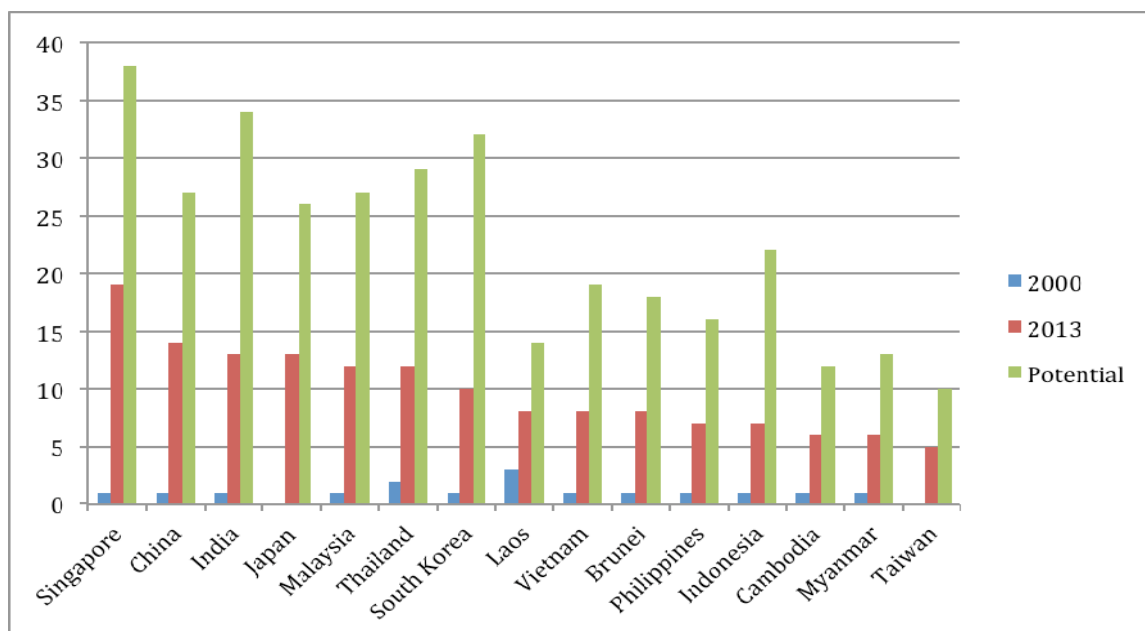
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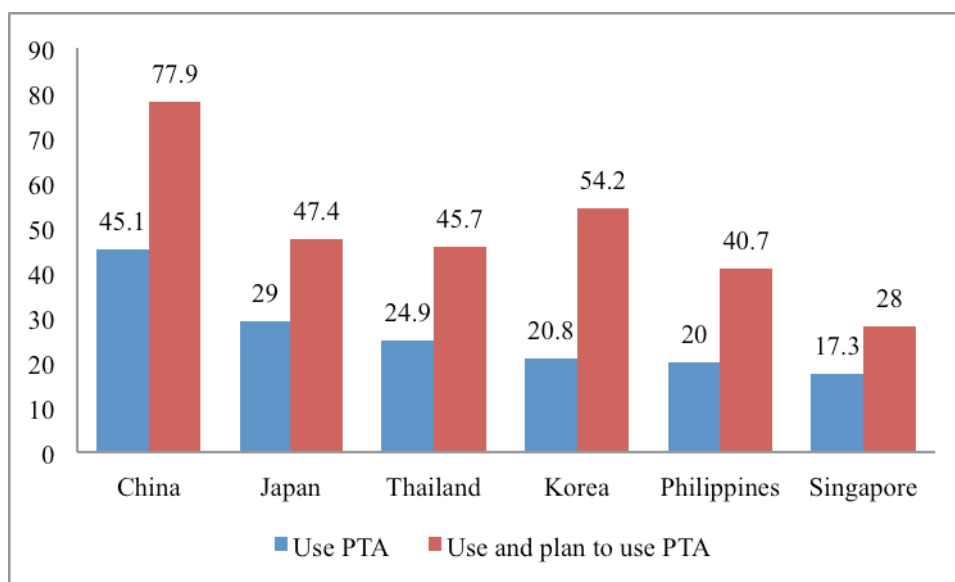
## FIGURES

**Figure 1:** Number of PTAs concluded (2000 and 2013) and of potential PTAs (including those under consideration/negotiation), in selected Asian countries, ranked according to 2013 figures



Source: Figure based on data from PTA Database of the Asia Regional Integration Center (ARIC)/Asia Development Bank

**Figure 2:** Utilization of PTA preferences (by percentage of respondents per economy)



Source: Figure based on data from Kawai and Wignaraja (2011; 2013)

## TABLES

**Table 1:** PTA activity by selected Asian countries (2013), countries ranked according to figures for PTAs “signed and in effect”

COUNTRY	Proposed	Under		Signed but not yet in effect	Signed and in effect	TOTAL
		framework agreement signed	Negotiations launched			
Singapore	6	1	10	2	19	38
China	6	1	6	0	14	27
India	7	4	10	0	13	34
Japan	5	0	8	9	13	26
Malaysia	7	1	6	1	12	27
Thailand	8	3	6	0	12	29
South Korea	11	0	10	1	10	32
Laos	4	0	2	0	8	14
Vietnam	4	1	6	0	8	19
Brunei	6	2	2	0	8	18
Indonesia	6	1	6	2	7	22
Philippines	7	0	2	0	7	16
Cambodia	4	0	2	0	6	12
Myanmar	4	1	2	0	6	13
Taiwan	2	1	1	1	5	10

Source: All data from PTA Database of the Asia Regional Integration Center (ARIC)/Asia Development Bank)

**Table 2:** Overview and depth of (selected) Chinese PTAs

PTA partner	Year	Depth
Hong Kong	2003	2
Macao	2003	2
ASEAN (goods)	2004	2
Chile	2005	3
Pakistan (goods)	2006	3
ASEAN (services)	2007	3
Singapore	2008	4
New Zealand	2008	4
Pakistan (Services)	2009	4
Peru	2009	5
Costa Rica	2011	4*
Iceland	2013	5*
Switzerland	2013	5*

Source: All data from Dür et al. (2014) except for those indicated with \* = author's estimate

**Table 3:** Overview and depth of selected Indian PTAs

PTA partners	Year	Depth
Bhutan	1972	1
Global System of Trade Preferences (GSTP)	1988	0
India, Nepal	1991	0
Sri Lanka	1998	1
Afghanistan	2003	2
Mercosur	2004	1
South Asian Free Trade Area (SAFTA)	2004	1
Singapore	2005	4
Asia Pacific Trade Agreement (Bangkok Agreement amended)	2005	1
Bhutan	2006	1
Chile	2006	1
ASEAN	2009	2
South Korea	2009	5
Nepal	2009	1
Malaysia	2011	4*
Japan	2011	5*

Source: all data from Dür et al. (2014), except for those indicated with \* = author's estimate

**Table 4:** Top five export markets and main exported goods to that market (India)

<i>Export market</i>	<i>Main goods exported to that market</i>
United Arab Emirates (UAE)	Diamonds (25%), Jewelry (25%)
United States	Diamonds (17%), Medicaments (9%)
China	Iron Ore (34%)
Singapore	Refined Petroleum (57%)
Hong Kong	Diamonds (71%)

Source: Harvard-MIT Observatory of Economic Complexity (2011)

**Table 5:** Top five import markets and main imported goods from that market (India)

<i>Import market</i>	<i>Main goods imported from that market</i>
United Arab Emirates (UAE)	Petroleum (26%), Jewelry (25%), Diamonds (25%)
United States	Diamonds (23%), Medicaments (11%)
Saudi Arabia	Petroleum (76%)
Switzerland	Gold (96%)
China	Electronics (15%), Cotton (10%), Chemicals (9%), Copper (8%)

Source: Harvard-MIT Observatory of Economic Complexity (2011)