

# A study on Status and Prospects of India - Thailand Free Trade Agreement with Specific reference to Textiles

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## ABSTRACT

India and Thailand signed a free trade agreement in 2004 with an early harvest scheme of 82 items which supported MNC companies who manufacture TV, automobile and refrigerator and does not support that much other Industries. In this article, we did an analysis on this FTA's current status as well as its effect on Textile trade. Current status of this FTA combined with INDIA- ASEAN FTA (where Thailand is also a part now) is explored further. Thailand from this year extends zero duty on 67% of items and India will reduce to zero duty level on 64% of item from next year. Both countries agreed to reduce for another 10% items from 2016 onwards to zero level. WRT analysis on textile trade of Thailand, top most one with 24.15% is cotton, followed by man-made filament at 16.59% and coated fabrics at 10.81%. China was the world top supplier not only for these 3 items but for all 14 HS code of textiles. With necessary awareness creation on this FTA and with a better product mix, India can take over part of Thailand market, which is currently being serviced by China. Let us say from current level of 3% share, with an effort, India should target to bring this up to 10% level.

## Introduction

India and Thailand have signed a free trade agreement since 2004 and implemented early harvest scheme of 82 items based on 6 digit HS code numbers, which mainly consist of picture tube, refrigerator, plastic raw material, semi-precious stones, gear boxes, seats etc. The list was covering approximately seven per cent of the bilateral trade at that time. The duty reduction was initiated on March 1, 2004 and by 2006 duty was reduced to zero for all 82 items.

In this list, only item which was of interest to Textile were nylon 6 chips. It was being exported

from Thailand to India at zero duty. For this item there were only 3 or 4 producers from Thailand but the main advantage was enjoyed by MNC the manufacturer of automobile, TV and refrigerator.

India's textile trade is unique and its domestic prices are normally higher than export price. This trend prevails in many countries including Thailand. In case of India its domestic market size is so big, that producers prefer to work in domestic market, where his comfort level is better than struggling to export.

For example, Nylon Draw Textured Yarn (DTY) in India is still having anti dumping to protect the

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3 or 4 domestic manufacturers like Century, JCT, and GSFC. Today a 70/24 nylon 6 DTY is sold in international market at USD 4.00/kilo, but Indian domestic price for the same is above USD 4.50/kilo which is around 10% higher. Viscose spun yarn in India, let us say 30 s ne is sold around USD 4.00/kilo where as international price is around USD 3.50/kilo but here if we do the analysis of the value chain additional price benefit is not enjoyed by spinners but by fiber manufacturer again on viscose fiber we have anti dumping. Polyester textured yarn, let us say 150 den is sold around USD 2.10/kilo in domestic market where as international price is around USD 1.80/kilo

To understand this phenomena better, we need to study the duty levels. In case of Thailand, when customs duty is zero means an importer has to pay a uniform VAT of 7% which is at par with domestic supplier. In case of Indian side when a buyer import viscose yarn at 0 duty means, still he need to pay a total of 18.2% as other charges including VAT .

Let us say for 30 s NE viscose yarn, presume the basic value of imported item is 100 means (100 + 1% landing charge + 12% in lieu of excise duty +3% education on 13.1% + 4% vat on all ) the calculated duty comes to 118.2. This means the additional charges an importer has to pay is 18.2% details are being listed in Table 1

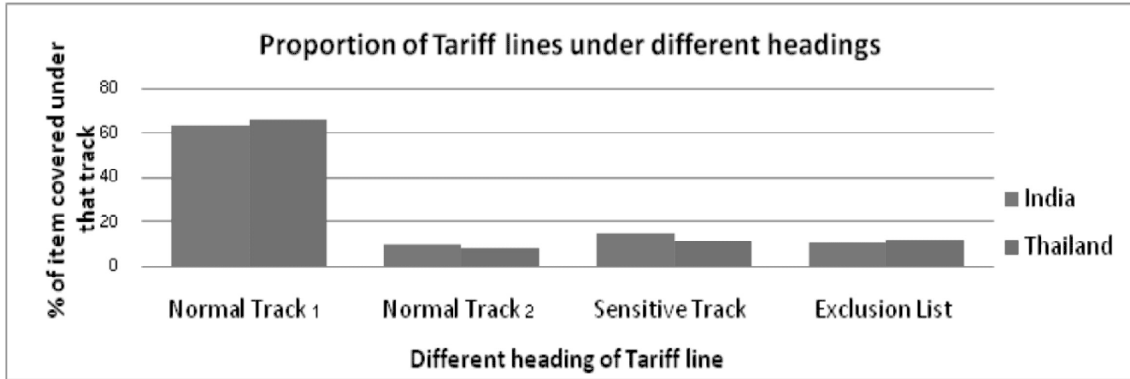
**Table 1 : Total duty calculation under various custom duty levels**

	0 duty level			2.5% duty level			5% duty level		
		Total	value		Total	Value		Total	Value
Basic value of goods	100		100	100		100	100		100
Assessable Value(AV) (1% landing charge added)	1%	101		1%	101		1%	101	
Basic customs duty	0%	101	1.0	2.5%	103.5		5.0%	106.1	6.1
Additional Duty of Customs(CVD) 12% duty in lieu of excise duty	12%	113.1	12.1	12%	115.9	15.9	12%	118.8	12.7
customs education cess	3%	113.7	0.4	3%	116.4	0.5	3%	119.3	0.6
Special Additional Duty of Customs (Spl.CVD) in lieu of VAT	4%	118.2	4.5	4%	121.1	4.7	4%	124.1	4.8
Total duty			18.2			21.1			24.1

Even after this, majority of Indian producers are not profitable, which should be due to their size of manufacturing.

Thailand agreed to reduce the peak duty of (30% to 5%) to 0 level for 67% of items from this year and another 9% of items duty will be reduced to zero from 2017 onwards.

**Figure 1 : Percentage of items covered in various track**



Indian side agreed to reduce the peak duty of 10 to 15 % to 2.5% this year for 63% of items and this will be further reduced to zero from next year. For fabric which comes under 2<sup>nd</sup> track of 10% of item, duty will be reduced to 0 level from 2016. Import data also suggest due to high import duty from India, when it is reduced the import growth in India is higher than Thailand and trade balance is in deficit for India.

**Table 2 : Average Tariff rate of Members according to AIFTA commitments**

year	Base rate 2007 MFN	1/1/2010	1/1/2011	1/1/2012	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017
India	12.9	8	6.5	5	3.7	1.7	1.5	1.2	1
Thailand	11.6	8	6.6	5.1	3.3	2.1	1.7	1.2	0.7

Source : UN Comtrade.

HS code no wise current import and major supplying countries are listed in Table - 3. The import pattern of Thailand in Table -3 shows that in 2011 Thailand's highest level of import item was cotton at 24.15%, followed by man-made filament at 16.59% and coated fabrics at 10.81%. China was the world top supplier not only for these 3 items but for all 14 HS code of textiles.

## Objectives

This comprehensive study aims at identifying advantage and disadvantage of existing and ongoing current trade agreements between two countries in Textile trade

1. To identify the potential of both the countries on **Textile trade** (by SMART method) if we free all item and bring it under FTA how the trade grows and the effect of it on the basis of trade creation, trade diversion, welfare effects, tariff loss, trade diversion as a percentage of total trade

and also details of country from whom the trade is diverted. identifying also the top 5 supplying countries and top 5 exporting countries to understand the trade shift or trade diversion

2. To identify the textile trade of Thai import from India and Thai export to India with top 5 supplying countries for imported items and top 5 exporting countries for exporting items and If we open complete FTA how they affect the current trade & vice versa
3. To do analysis of the status of trade surplus experienced by India and Thailand under FTA and identification of commodity group for trade expansion and to identify areas to correct this trade surplus/deficit
4. To do analysis of perception of manufacturers on the existing and ongoing current trade agreements between two countries.
5. To identify the emerging challenges & opportunities of FTA agreement between two countries and explore the avenues to enhance trade cooperation in the prospective industrial sectors.
6. To find out challenges faced by both countries/entrepreneurs to enhance their cooperation and bilateral trade, identifying other areas for cooperation including liberalization of trade in service and liberalization of investment sector with free man power movement and To suggest needed measures for strengthening the bilateral trade for both countries.

**Table 3** -India's export to Thai in 2012 and top 5 exporting country for India and top 5 supplying country for Thailand with share percentage (Value in USD 1000)

No	Hs code	Product label	India's export to Thai in Textiles Value in 2012	Thai Import fm world Value in 2012, USD thousand	India's export to Thai as % Thai imp fm world	Top 5 exporting countries for India and its share and Thailand's share	Top 5 supplying countries for Thailand and its share and India's share
1	'50	Silk	1928	11984	16.1	USA (19.6%), UK (14.5%), UAE (10.2%), Germany (6.8%), China (5.4%), Thailand (1.2%)	China (37.1%), India (9.6%), Viet Nam (4.3%), Hong Kong (1.6%), Italy (1.4%)
2	'51	Wool, animal hair, horsehair yarn and fabric thereof	1098	69142	1.6	Italy (27.1%), UK (12.1%), Korea (6.5%), USA (6.1%), Japan (5.3%), Thailand (0.6%)	Japan (5.3%), Italy (12.5%), New Zealand (11.7%), Mexico (4.3%), Portugal (4.2%) India (0.7%)
3	'52	Cotton	61362	1154287	5.3	China (42.2%), Bangladesh (16.2%), Pakistan (2.9%), Sri Lanka (2.5%), Korea (2.4%), Thailand (0.7%)	China (18.3%), USA (17.4%), Australia (17.1%), Brazil (14.7%), India (6%)

4	'53	Vegetable textile fibers, paper yarn, woven fabric	504	18048	2.8	China (17.4%), USA (13.2%), Netherlands (7.4%), UK (5.3%), Saudi Arabia (5.3%), Thailand (0.2%)	China (50.8%), Bangladesh (20.8%), UK (19.6%), Japan (3.5%), India (3.1%)
5	'54	Manmade filaments	30726	828348	3.7	Turkey (11.5%), Brazil (10.7%), UAE (9.9%), Egypt (5.8%), Pakistan (5.6%), Thailand (0.6%)	China (27.3%), Japan (18.9%), Taipei (9.3%), Indonesia (6.3%), India (3.7%)
6	'55	Manmade staple fibers	11979	478702	2.5	Turkey (10.3%), Bangladesh (6.3%), Egypt (5.9%), UAE (5.8%), USA (5.7%), Thailand (0.6%)	China (40.6%), Taipei (13.2%), Indonesia (11.5%), Japan (8.1%), Korea (7.2%), India (2.4%)
7	'56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	1839	261835	0.7	USA (20%), UAE (10.5%), Indonesia (7.5%), Singapore (5.7%), UK (5.5%), Thailand (0.6%)	China (28.3%), Japan (22.6%), Taipei (7.5%), USA (7.1%), Malaysia (6.4%), India (1.2%)
8	'57	Carpets and other textile floor coverings	5052	38870	13.0	USA (40.6%), Germany (10.1%), UK (8.8%), UAE (3.9%), Australia (3.3%), Thailand (0.4%)	China (51%), Japan (9.2%), Germany (7.3%), Malaysia (6.2%), Indonesia (5.5%), India (3.9%)
9	'58	Special woven or tufted fabric, lace, tapestry etc	851	176145	0.5	Nigeria (10.7%), USA (10.6%), UAE (9.7%), Italy (9.5%), UK (4.5%), Thailand (0.3%),	China (40.2%), Japan (14.2%), Hong Kong (11.9%), Taipei (8.6%), Indonesia (5.2%), India (1.1%)
10	'59	Impregnated, coated or laminated textile fabric	2262	539983	0.4	Saudi Arabia (12.2%), UAE (8.7%), USA (8.3%), Mexico (6.3%), China (5%), Thailand (1.2%)	China (40%), Korea (13.6%), Japan (13.3%), Taipei (7.5%), Indonesia (4%), India (0.5%)
11	'60	Knitted or crocheted fabric	1933	386057	0.5	Sri Lanka (38.9%), Bangladesh (21.3%), USA (16.7%), Egypt (5.3%), Elsalvador (2.6%), Thailand (0.2%)	China (39%), Taipei (28.7%), Korea (7.3%), Japan (7.2%), Hong Kong (6.6%), India (0.6%)
12	'61	Articles of apparel, accessories, knit or crochet	6617	271656	2.4	USA (23.9%), UK (12.1%), UAE (11.9%), Germany (8.4%), France (5%), Thailand (0.12%)	China (65.1%), Cambodia (4%), Vietnam (3.9%), Turkey (2.5%), USA (2.3%), India (1%)

13	'62	Articles of apparel, accessories, not knit or crochet	4075	366063	1.1	USA (23.5%), UK (11%), UAE (10.6%), Germany (6.7%), France (5%), Thailand (0.05%)	China (52%), Japan (5.9%), Hong Kong (5.4%), Italy (4%), Turkey (2.9%), India (2.8%)
14	'63	Other made textile articles, sets, worn clothing etc	65371	340999	19.2	USA (42.2%), UK (7%), Germany (8.7%), UAE (2.6%), Australia (2%), Thailand (0.06%)	China (26.1%), India (18.8%), Bangladesh (11.5%), Singapore (8.6%), Japan (8%)
		Total trade in Textiles	195597	4942119	4.0		

In the below Table-3 as per analysis on the export pattern of India, The top most item is other made textiles articles ( USD 65371000) followed by cotton (USD 61362000 ) followed by Manmade filaments (USD 30726000). China is the major supplier for these top 3 items as well as for all 14 HS code of Textiles. In the same Table-3 given also the major supplying countries for this HS code number to Thailand

**Table 4 : India's import from Thai in 2012 and top 5 supplying country for India and top 5 Exporting country for Thailand with share percentage**

No	Hs code	Product label	India's import to from Thai in Textiles Value in 2012	India's Import from world in textiles Value in 2012, USD thousand	India's Import from Thai as % of India's import from World	Top 5 supplying countries for India with its share %	Top 5 exporting countries for Thailand with its share %
1	'50	Silk	1354	325774	0.4	China (92.8%), Vietnam (1.5%), Korea (0.9%), Japan (0.5%), USA (0.5%), Thailand (0.4%)	USA (28.6%), Japan (27.5%), UK (8.2%), France (6.2%), Hong Kong (6%), India (0.4%)
2	'51	Wool, animal hair, horsehair yarn & fabric	1576	399393	0.4	Australia (44.3%), China (10.3%), South Africa (8.3%), New Zealand (5.3%), Italy (3.8%), Thailand (0.4%)	Italy (34.4%), Japan (29.2%), India (16.5%), Singapore (3%), UAE (2.7%)
3	'52	Cotton	2981	770431	0.4	China (25%), USA (14.1%), Pakistan (10.7%), Egypt (6.4%), Tanzania (5.5%), Thailand (0.4%)	China (11.9%), Myanmar (9.2%), Bangladesh (9.0%), Japan (6.9%), Viet Nam (6.9%), India (0.4%)

4	'53	Vegetable textile fibers, paper yarn, woven fabric	85	263955	0.0	Bangladesh (46.7%), China (41.4%), Belgium (4.1%), France (2.0%) Kenya (0.7%) Thailand 0.03%)	China (77.6%), UAE (9%), UK (7.3%), Hong Kong (1%), Japan (0.9%), India (0.1%)
5	'54	Manmade filaments	16233	731013	2.2	China (43%), Japan (9.7%), Korea (8.6%), Taipei (7%), Germany (4.8%) Thailand (2.2%)	Viet Nam (13.3%), China (13.2%), Japan (8.2%), Indonesia (5.5%), Bangladesh (4.1%), India (2.6%)
6	'55	Manmade staple fibers	39053	476245	8.2	China (35.1%), Germany (10.8%), Thailand (8.2%), Indonesia (8.2%), USA (6.9%)	Indonesia (12.96%) Viet Nam (9.7%), UAE (6.9%), Turkey (6.5%), Brazil (6.4%), India (3.1%)
7	'56	Wadding, felt, nonwoven yarns, twine, cordage,	7313	168650	4.3	China (30.7%), Taipei (7.2%), Netherlands (7%), Korea (6.9%), USA (6.7%), Thailand (4.3%)	Japan (20%), Indonesia (9.9%), China (9.5%), Myanmar (9.2%), Malaysia (5.9%), India (1.7%)
8	'57	Carpets and other textile floor coverings	10232	71833	14.2	China (32.1%), USA (16.3%), Thailand (14.2%), UAE (6.9%), Belgium (5.5%)	Australia (19.4%), Japan (17.5%), USA (11.5%), Saudi Arabia (5.9%), India (5.7%)
9	'58	Special woven or tufted fabric, lace, tapestry	3231	142571	2.3	China (41.7%), Hong Kong (19.7%), Sri Lanka (9.1%), Vietnam (3.1%), Korea (3.3%), Thailand (2.3%)	Hong Kong (12.4%) UAE (7.2%), Viet Nam (6.5%), USA (6.3%), Sri Lanka 5.2%), India (3%)
10	'59	Impregnated, coated or laminated textile fabric	39534	737167	5.4	China (58.9%), Taipei (12.7%), Thailand (5.4%), Korea (4.4%), Germany (2.3%)	India (26%), Viet Nam (12.8%), Indonesia (9.4%), China (6.9%), Japan (6.6%)
11	'60	Knitted or crocheted fabric	2497	366685	0.7	China (74.9%), Hong Kong (4.7%), Sri Lanka (4.3%), Taipei (3.3%), Korea (2.9%)	Viet Nam (20.4%), Indonesia (15.5%), Cambodia (14.2%), Lao (7.9%), Sri Lanka (6%), India (1%)
12	'61	Articles of apparel, accessories, knit or crochet	3836	115447	3.3	China (42.1%), Bangladesh (9.4%), Sri Lanka (6%), Spain (5.4%), Italy (4.7%), Thailand (3.3%)	USA (35.7%), Japan (15.2%), Germany (5.6%), Belgium (4.9%), UK (3.6%), India (0.2%)

13	'62	Articles of apparel, accessories, not knit or crochet	2005	197049	1.0	China (23.8%), Bangladesh (21.7%), Sri Lanka (10.3%), Italy (8.6%), Spain (7.3%), Thailand (1%)	USA (32.1%), Japan (8%), France (4.5%), Spain (3.4%), Netherlands (3.2%), India (0.2%)
14	'63	Other made textile articles, sets, worn clothing	1006	384857	0.3	China (25.9%), Bangladesh (20.6%), USA (19.6%), Canada (4.8%), UAE (4.1%), Thailand (0.3%)	USA (24.5%), Singapore (10.6%), Japan (10.3%), Australia (5.6%), Myanmar (4.1%), India (0.6%)
		Total textile trade	130936	5151070	2.5	-	-

In the above Table-4, As per analysis on the import pattern of Thailand, Based on value the top most import was coated fabric ( USD 39534000) followed by Manmade fibers ( USD 39053000) followed by Manmade filament ( USD 16233000). China is the major supplier for these top 3 items as well as for 14 HS code of Textiles. In the same Table-4 given also the major supplying countries for this HS code number to India.

China started negotiating FTA in 2001 with ASEAN and Thailand supported this strongly from beginning. In 2004 China started an early harvest scheme (EHS) of items for duty reduction and in 2006 duty was reduced to zero for this EHS items. In 2010 the Zero duty was enlarged for all items and brought FTA. Now it is called as Comprehensive Economic Program (CEP). Thailand imports majority of its textile items from China, to dethrone China, India need to put a lot of effort and should offer a better product mix and quality.

In the below Table – 5, we did another analysis on growth in textile import of India from Thailand between 2006 to 2010 for 14 HS code related to textiles and their performance is compiled below,

**Table 5 : India's Textile import from Thailand**

**India's import from Thailand in textile trade analysis**

	Value in 2007	Value in 2008	Value in 2009	Value in 2010	Value in 2011	Value in 2012
India's import from Thailand ( Thai export to India )	89053	106907	94118	117487	151435	130936
India's import from world	3039251	3583685	3215915	3914312	4934156	5151070
Thailand export to world	7042279	7211219	6523641	7772236	8356317	7318255
India's import from Thai as % of Thai export to world	1.3	1.5	1.4	1.5	1.8	1.8
India's import from Thai as % of India's import from world	2.9	3.0	2.9	3.0	3.1	2.5

Source: UN Comtrade



As you may notice Thailand's export to India, is growing at an average of 6%. And import is growing at 12% Thailand's export to India is currently at 1.9 % and import is at 2.7% its export to world as well as Thailand export to India is only 2.8% and import is 0.4% of India's Import from world. This shows there is a good potential for increasing the trade between both the countries to 10% level.

**Table 6 : India's textile export to Thailand**

**India's export to Thailand in textile trade analysis**

	Value in 2007	Value in 2008	Value in 2009	Value in 2010	Value in 2011	Value in 2012
India's export to Thailand (Thai import from India)	93674	95397	77120	109169	149923	195597
Thailand Import from world in textiles	3129652	3709839	2880914	4009374	4904295	4942119
India's export to world in textiles	20969201	22697196	21912922	27127764	33374091	32682932
India's export to Thai as % of India's export to world	0.45	0.42	0.35	0.40	0.45	0.60
India's export to Thai as % of Thailand import from world	3.0	2.6	2.7	2.7	3.1	4.0

Source; Wits data base

**Analysis & findings**

With respect to Thai Import & export with India in Textile trade, and those of world countries having trade with these two countries analysis were carried out. The effects, in case full FTA is implemented have been listed as follows;

**1. Thailand's trade with India in textiles analysis** reveals, Thailand's import from India is growing at an average of 27%, and it is currently at 2.7% of Thailand's textile import from world. Thailand's export to India in textiles is growing at an average of 10 % and it is currently at 1.9 % of Thailand's textile export to world. As well as the portion what Thailand is exporting to India is only 2.8% of India's import from world.

So from all sides it shows there is a good potential to grow it at least to 10% level.

**2. SMART analysis of Textile trade reveals**, the Trade creation, trade diversion, and welfare effect when India reduces its duty to zero level for Textiles will be as follows. As per this analysis major trade creation is done on HS code no 57 (7.7 mil) , 55(1.5 mil) & 54 ( 0.7 mil) the total trade creation value is 12 million and with respect to trade diversion the major diversion happens with HS code no 59 ( 0.5 mil),54(0.3 mil) & 55 ( 0.2 mil) and total value USD 1.4 mil and with respect to welfare effect major welfare effect is with HS code 57 ( 0.5 mil) and total effect is 0.8 mil USD . Trade creation, trade diversion,

and welfare effect is analysed based on Thailand reducing its duty to zero level for Textiles items by SMART wits tools. as per this analysis major trade creation is done on HS code no 62( 0.5 mil) , 63 ( 0.2 mil) the total trade creation value is 1 mil and with respect to trade diversion the major diversion happens with HS code no 62 ( 0.2 mil) ,61 ( 0.1 mil) & 63 ( 0.1 mil) and total value USD 0.43 mil and with respect to welfare effect major welfare effect is with HS code 62,(0.15 mil ) 61 (0.2 mil ) &63 ( 0.3 mil) and total effect is 0.2 mil USD .

3. **Current textile trade analysis reveals** , for Thailand's import from India is at 195 mil USD in 2012 and it is expected to grow to 325 million under compound method of projection by 2015, India's import from Thailand is currently at 131 mil USD for 2012 and it is expected to grow to 192 million under compound method of projection by 2015, further after reducing the duty to zero Thailand's trade will increase by 12 million and for India it is 1 mil USD , to conclude the textile trade will be positive for India when full FTA is implemented.
4. **Import pattern analysis of Textiles for both the countries reveals**, In 2012 Thailand's highest level of import item was cotton at 24.15% followed by man-made filament at 16.59% and coated fabrics at 10.81%. China was the top supplier not only for these 3 items but for all 14 HS code of textiles to Thailand. In the same year 2012 India's highest level of Import item was carpet at 14%, manmade fiber at 8.2% and coated fabric at 5.4%. For 12 out of 14 items again china is the largest supplier (remaining two items are cotton top supplier is Australia and vegetable fiber supplier is Bangladesh).

## Recomendation & Conclusion

1. **Textile trade** ; We recommend for opening up of textile sector completely, in this case major trade will be diverted from china to India and help to support the trade to be positive. With a serious effort from India and Thailand, the trade level can be brought up to 10% level on both sides which will be a 3 fold increase. India's point of view to open service sector needs to be actively reviewed by Thailand, as this will help to adjust the trade deficit. A key point is to create necessary awareness to the industry for facilities and services available which are better in quality and available at a competitive price in both countries and also about the duty reduction.
2. **Investment**; Another key area to concentrate for Indian is its investment in Thailand. First, the number of Indian investment projects has not picked up in recent times. Second, Indian investment in absolute terms has fallen since 1998. Third, the shares of Indian and Thai investments in Indian projects have also remained stagnant in recent years. In terms of its sector composition, Indian investments have been rather concentrated mainly in manufacturing sector. In the services sector, its presence has been almost insignificant and India's strength is service sector. So this needs to be explored more, as well as efforts are required to diversify the Indian investment in Thailand. In terms of sector distribution of Thai investments it is observed that it is quite concentrated, in sectors such as minerals and ceramics and chemicals. Thai investment presence in India is nil. The major sectors in which Thai investment in India has been approved are

telecom, tourism, food processing, chemicals and electrical equipment's group has started some activity and few more JVs are being started in infrastructure area.

3. **Investors** The major Indian groups who have invested in Thailand are the Aditya Birla Group, Ballarpur Industries, Baroda Rayon Group, Usha Martin Industries, Ranbaxy Laboratories, Lupin Laboratories and Indo Rama, although some have since withdrawn (e.g., Ballarpur). At present, there are 26 Indian joint ventures operating in Thailand of which two Indian companies viz. NIIT and APTECH have started their operations more recently in software development and computer education. The potential areas for Indian investment in Thailand are IT services and software, pharmaceuticals, herbal based medicine and cosmetics, dairy development and products, manufacturing of machine tools, and iron and steel products, human resource development, and textiles (value added production of textiles like warp knitting plants and flat bed knitting plants for sweater manufacturing).

Source; Wits data base

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