Mitigating FTA Challenges*

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This year, India completes a decade of intensive engagement with its economic partners through the bilateral Free Trade Agreements (FTAs). The commencement of the negotiations with the 10-member Association of South East Asian Nations (ASEAN) in 2004 for an FTA covering the goods sector was a significant step for the country's engagement with the global economy. The Agreement marked a departure from India's erstwhile position regarding bilateral/regional agreements. Until its engagement with the ASEAN in 2003, India was almost unequivocally wedded to the multilateral trading system. The only aberrations came in the form of the bilateral deals with immediate neighbours in the South Asian region. India's preference for the multilateral trading system was aptly reflected in a discussion paper on regional trading arrangements (RTAs) that it had tabled in the early days of the Doha negotiations. In this paper, India argued that "the multilateral framework for international trade under the WTO-rule-based system needs to be strengthened by addressing issues of concern emerging on account of formation of such a large number of RTAs, including their impact on development". These views regarding RTAs, clearly those of an outlier, changed quite dramatically with India's engagement with the ASEAN.

The India-ASEAN FTA is also significant because it has emerged as the corner-stone of India's "Look East" policy. The FTA was conceived as a part of the 2003 Framework Agreement on Comprehensive Economic Cooperation between India and the ASEAN. This Framework Agreement set out the roadmap for deepening economic cooperation between the two sides through the establishment of an India-ASEAN Regional Trade and Investment Area (RTIA). The RTIA was to be realised through progressive elimination of tariff- and non-tariff barriers in almost all trade in goods and by progressive liberalisation of trade in services with substantial sectoral coverage. At the same time, the partners agreed to establish a liberal and competitive investment regime that facilitates and promotes investment within the India-ASEAN RTIA. The negotiations were initiated with rather ambitious targets: the deal on trade in goods was scheduled to conclude by June 2005, while the negotiations on services and investment, which were to be initiated immediately after the conclusion of the agreement on goods, were to be concluded by 2007. The negotiations went well beyond these timelines: the goods agreement became operational only in 2010 and although the negotiations on services and investment agreements were concluded at the end of 2012, they are yet to be implemented.

India's bilateral/regional economic engagement has undergone a complete transformation since then. It is now one of the most active countries in terms of the engagement with partner countries for Comprehensive Economic Partnership Agreements (CEPAs), which have replaced the FTAs. Thus far, CEPAs have been concluded with Singapore, Malaysia, Japan and Korea. Several significant ones — including ones with the European Union (EU), Australia, New Zealand, Canada and Indonesia—are in the pipeline.

Perhaps the most significant agreement that India is currently negotiating is the Regional Comprehensive Partnership Agreement (RCEP). The RCEP will be a mega regional agreement that includes the ASEAN members, India, Australia, New Zealand

and the three North Asian countries (China, Japan and Korea). In 2013, RCEP members accounted for nearly a third of the global merchandise trade and a fourth of the global trade in commercial services.

These bilateral/regional initiatives seem to support the view that they would complement the global trade liberalisation agenda of the WTO. The growing number of countries formalising bilateral trade deals and the nature of such agreements support this view. Gone are the days when bilateral deals used to be free trade agreements aimed at reducing and/or eliminating import duties on goods. Recent agreements are more “comprehensive” in their coverage. Not only do they include a number of areas that are monitored by WTO; they include issues that do not figure in the Doha Round. For instance, the CEPAs that India is negotiating include investment, an area that was excluded from the Doha Round; and in the agreement being negotiated with the EU, government procurement is included.

What is India’s experience with implementing these FTAs/CEPAs? A preliminary assessment of these agreements indicates that India has not been able to sufficiently leverage these agreements to increase its presence in the markets of its partners. In most cases, the shares of India’s merchandise exports to its FTA/CEPA partners have either stagnated or have declined since the middle of the previous decade, which roughly coincides with the period when the government entered into the agreements. Overall, the share of Indian exports to FTA/CEPA partners declined from nearly 38% in 2004 to 33% in 2012.

Disconcertingly, the share of India-manufactured goods in the total exports to all the FTA/CEPA partner countries has declined. In the case of ASEAN, the share of manufactured products in the export basket has declined from over 58% in 2005 to less than 44% in 2013, while in the cases of Japan and Singapore, the decline has been from over-50% to around 36% in the same period.

India’s inability to penetrate into the markets of its partners implies that it continues to remain a marginal player in most of these markets. With the exception of Singapore, India’s share in the partner countries’ imports show either little improvement or actual decline. In three of these cases, India’s share is yet to reach 1% of the trade partner’s total imports. These figures are clear indications that India has been unable to benefit from its economic integration with one of the more dynamic regions of the world.

Data show that while India was unable to find market access in partner countries, imports from them remained relatively high. For instance, the trade deficit with its partners as a percentage of India’s exports was nearly four-times, while in case of Korea, the corresponding figure was more than two-times. The terms of India’s engagement with its trading partners has worsened over the past few years.

In light of the above, questions have arisen about India’s preparedness to either take advantage of the opportunities offered by the FTAs/CEPAs or to meet the challenges they have posed.

India’s indifferent performance has evoked strong reactions from the government; the more dominant view is that these agreements must be reviewed. It is yet not clear, however, as to when and how the reviews will be undertaken. But at this juncture, the need is to adopt a more prudent two-pronged approach. First, to identify the weaknesses in the domestic economy causing inefficiencies in the productive sectors, and to find ways of removing them expeditiously; secondly, effective engagement with the partner countries to ensure removal of the market-access barriers that they have employed, especially the non-tariff barriers in goods and the regulatory barriers in services, which have adversely impacted Indian exports. The contours of India's negotiating strategy must emerge from this exercise.

This is the most opportune time to carry out such an exercise. Some of the CEPA negotiations, especially the RCEP, are entering a critical phase, and India must effectively articulate its interests (offensive as well as defensive), on all the critical issues, at the negotiating table.

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