AUTHOR

DIPANKAR DEY

Widening aperture?

India's stance on FTAs — aimed at diversification of export markets, cheaper access to capital goods, attracting foreign investment and emboldening Act East policy — must also focus on solving energy needs and reducing import dependence for its major export items to maintain the country's competitiveness in the global market

In a span of two months, between mid-February and first week of April, the Government of India has signed two major trade agreements, one with the United Arab Emirates (UAE) and the other with Australia. This has happened at a time when the Indian government has not joined either of the two mega blocs, Regional Comprehensive Economic Partnership (RCEP) — a Chinese initiative — or the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), headed by Japan.

India-UAE CEPA

UAE is India's third-largest trade partner globally, after the United States and China. The UAE is also home to 35 lakh Indian-origin persons. Table 1 reveals that in 2021, India's trade deficit with the UAE was more than USD 15.2.

On February 18, India and the UAE signed the Comprehensive Economic Partnership Agreement or CEPA. The trade deal covers, among other things, free trade, digital economy, government procurement, and strategic areas. The UAE will remove customs tariffs on nearly 80 per cent of the goods, which account for 90 per cent of India's export to the Gulf nation by value. CEPA also covers 11 service sectors and over 100 sub-sectors, which include business services, telecommunications, construction, education, tourism, nursing, and finance among many others. To protect the interests of domestic producers, India has kept items such as dairy, fruit, cereals, vegetables, tea, coffee, tobacco, dyes, soaps, footwear, petroleum, tyres, toys, aluminium scrap, copper, processed marble etc. out of the trade pact, reports *Business Standard.*

It is claimed that the deal is set to benefit Indian exports in gems & jewellery, textiles, leather, footwear, sports goods, plastics, furniture, agricultural goods, pharma, medical devices, automobiles, and engineering goods sectors. India has given tariff concessions on gold exports to the UAE, while they have eliminated tariffs on jewellery exports from India. The UAE has accepted India's request that once an Indian medical product is accepted by the UK, the US, the EU, Canada, and Australia, and goes through the rigorous regulatory process of these countries, such products will get market access and regulatory approval in a time-bound manner of 90 days for being marketed in the UAE. As per a report by Moneycontrol, the UAE is expected to benefit from potentially larger exports of metals & minerals, petrochemicals, petroleum products and dates.

India-Australia CECA

On April 2, India and Australia signed a comprehensive interim free-trade agreement that will provide zero duty exports to 100% tariff lines from India to the Australian market, benefiting labour-intensive sectors besides providing greater access to the services space.

India has kept several sensitive products in the exclusion category such as milk, dairy products, chickpeas, walnut, pistachio nut, wheat, rice, bajra, apple, sunflower seed oil, sugar, oil cake, gold, silver, platinum, iron ore and most medical devices. According to government estimates, trade in goods is likely to almost double to USD 50 billion in five years from about USD 27 billion at present.

Australia will provide zero-duty market access for 96.4 per cent value of Indian exports (98 per cent of tariff lines) on the first day of implementation of the agreement. Exports of several labour-intensive sectors, currently facing import duty of 4-5 per cent in Australia, will gain from the immediate duty-free access. These include most textiles and apparel, a few agricultural and fish products, leather, footwear, furniture and sports goods, jewellery, engineering goods, and selected pharmaceuticals and medical devices. Tariffs on the remaining 113 tariff lines, amounting to 3.6 per cent of India's exports, will be phased out in five years.

As on July 15, 2021, there were 349 trade agreements in force, in addition to notifications of 565 more

Australia, too, will gain considerable market access in India with tariffs being eliminated on more than 85 per cent of the Australian goods exports immediately, rising to almost 91 per cent in over 10 years. While tariffs on items such as wool, sheep meat, coal, alumina, metallic ores, and critical minerals will be immediately reduced to zero, on other products such as avocados, onions, cherries, shelled pistachios, macadamias, cashews in-shell, blueberries, raspberries, blackberries and currants, tariffs will be eliminated over the next few years. Import duties will also be slashed on Australian wines, though not eliminated, reports *Businessline.*

According to a press release by the Australian government, this agreement has "been built on strong security partnership and joint efforts in the Quad, which has created the opportunity for the economic relationship to advance to a new level", the press release claimed. So the security aspect of the Quad which has been revived to counter the Chinese power in the Indo-Pacific region is one of the objectives of this trade initiative.

According to the Australian government, the benefits of AI ECTA include:

❖ Sheep meat tariffs of 30 per cent will be eliminated on entry into force, providing a boost for Australian exports that already command nearly 20 per cent of India's market.

❖ Wool will have the current 2.5 per cent tariffs eliminated on entry into force, supporting Australia's second-largest market for wool products.

❖ Tariffs on wine with a minimum import price of USD 5 per bottle will be reduced from 150 per cent to 100 per cent on entry into force and subsequently to 50 per cent over 10 years (based on the Indian wholesale price index for wine).

❖ Tariffs on wine bottles with a minimum import price of USD 15 will be reduced from 150 per cent to 75 per cent on entry into force and subsequently to 25 per cent over 10 years.

❖ Tariffs up to 30 per cent on avocados, onions, broad, kidney and adzuki beans, cherries, shelled pistachios, macadamias, cashews in-shell, blueberries, raspberries, blackberries, currants will be eliminated over seven years.

❖ Tariffs on almonds, lentils, oranges, mandarins, pears, apricots and strawberries will be reduced, improving opportunities for Australia's horticulture industry to supply India's growing food demand.

❖ The resources sector will benefit from the elimination of tariffs on entry into force for coal, alumina, metallic ores, including manganese, copper and nickel; and critical minerals including titanium and zirconium.

❖ LNG tariffs will be bound at 0 per cent at entry into force.

❖ Tariffs on pharmaceutical products and certain medical devices will be eliminated over five and seven years.

Table 1 reveals that in 2021, India's trade deficit with Australia was more than USD7.7 billion. After the implementation of the agreement, it is expected that the balance of trade will improve in India's favour. However, India's experiences of the hitherto trade deals, especially with relatively more developed nations, do not justify such optimism.

Why does India need a FTA?

FTA is an agreement between the countries or regional blocs to reduce or eliminate trade barriers, through mutual negotiations, with a view to enhancing trade. It can however be comprehensive to include goods, services, investment, intellectual property, competition, government procurement and other areas. The WTO uses the nomenclature of Regional Trade Agreements (RTAs) to describe FTAs.

As per WTO statistics, as on July 15, 2021, there were 349 trade agreements in force. However, there were notifications of 565 more trade agreements. Every WTO member has at least one trade agreement.

India has signed 13 free trade agreements (FTAs) and 5 preferential trade agreements (PTAs). Please refer to Tables 2 & 3 for details. In the Indian context, the key differences between an FTA and a PTA are that the FTA is comprehensive across a number of areas and has deeper commitments while a PTA is confined to trade in goods and seeks only tariff elimination in terms of a margin of preference (MOP). Moreover, the coverage of a PTA on goods is also limited as compared to an FTA.

The rationales for India's FTAs/ PTAs are:

❖ Diversification and expansion of export markets.

❖ Selectively cheaper access to raw materials, intermediate products and capital goods.

❖ Seeking opening in modes and sectors of India's interest in services.

❖ Attracting foreign investment to stimulate manufacturing, generate employment and improve competitiveness.

❖ Geopolitical strategy such as "Act East" or QUAD resulting in FTAs with ASEAN, Japan and Korea and Australia.

As per the FDI data maintained by the Department for Promotion of Industry and Internal Trade (DPIIT), the cumulative investment received, from the first 11 countries/regions mentioned in Table 2, in the last five years (between October 2016 and September 2021) was to the tune of USD 89.46 Billion. However, it is not possible to ascertain if investment from a country has taken place due to the signing of an RTA or any other reason(s).

A cursory analysis of the contents of Tables 2, 3, 4 & 5, reveals a few interesting facts about Indian policy.

❖ India is moving away from the East and South-East Asian region to North America, Pacific, Europe, Euro-Asia, Africa and middle Asian regions. The targeted regions are relatively more developed.

❖ The present focus is more on bilateral agreements than multilateral arrangements like RCEP.

❖ Though China's presence is limited only to its membership in the APTA PTA, implemented in 1975, its trade with India is substantial. In 2021, India had a trade deficit of over USD 65.5 billion with China

❖ Table 5 clearly reveals, with the exception of Bangladesh, Sri Lanka, Nepal, the Philippines and Brazil, India has huge trade deficits with all other major trading partners including ASEAN.

Conclusion

As per the WTO report, in 2020, the five major export items in terms of value (USD billion) of India were:

❖ HS2710 (Petroleum oils, other than crude): USD 26 billion

❖ HS3004 (Medicaments in measured doses): USD 16. 6 billion

❖ HS7102 (Diamonds, whether worked or not): USD 15.2 billion

❖ HS1006 (Rice): USD 8 billion

❖ HS7113 (Articles and parts of jewellery): USD 7.65 billion

And five major imports were:

❖ HS2709 (Petroleum oils, crude): USD 64.59 billion

❖ HS7108 (Gold): USD 21.9 billion,

❖ HS7102 (Diamonds, whether or not worked): USD15.9 billion

❖ HS2701 (Coal; briquettes): USD15.9 billion,

❖ HS2711 (Petroleum gases): USD15 billion.

The export basket shows the absence of any high-end manufactured product. All the major exported items, with the exception of rice, were completely dependent on imported inputs.

Dependence on imported energy products (crude oil, coal, gas) has made India vulnerable to any crisis in the global primary energy market and makes its manufacturing sector uncompetitive and risk-prone. Till India finds a permanent solution to its energy needs and substantially reduces import dependence for its major export items, any new FTA or RTA will not be able to improve India's competitiveness in the global market. Unrestrained export of food items will jeopardise the food security of millions of its hungry citizens. Moreover, liberal imports of agricultural products will put the livelihood of farmers at risk.

Views expressed are personal

Table 1: India's trade balance with new FTA partners

Sl no	Country	Export FY 2017	Import FY 2017	Trade balance FY2017	Export FY2021	Import FY2021	Trade Balance FY2021
1	UAE	28146	21739	+6407	24963	40210	-15247
2	Australia	4012	13994	-9985	7475	15175	-7700
	India's total export/import	303526	465581	-162055	377436	549873	-172436

Source: Export-Import Data Bank, Trade Statistics, Department of Commerce, Ministry of Commerce & Industries, Government of India — figures in million

Table 2: Major FTAs signed by India as of March 2022

Sl no	Title	Description	Year of implementation
1	India-Sri Lanka Free Trade Agreement (ISFTA)	The 1st bilateral free trade agreement of Sri Lanka.	2000.
2	India Thailand Early Harvest Scheme (EHS)	The EHS for Framework Agreement for establishing Free Trade Area was signed on October 9, 2003.	2004
3	The India–Singapore Comprehensive Economic Cooperation Agreement (CECA)	It is a free trade agreement to strengthen bilateral trade. signed on 29 June 2005.	2005
4	The South Asian Free Trade Area (SAFTA)	It is the free trade arrangement of the South Asian Association for Regional Cooperation (SAARC). SAFTA signatory countries are Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.	2006
5	India-Bhutan Agreement on Trade Commerce and Transit	The renewed agreement was signed on 12 November 2016 and came into force with effect from 29 July 2017, for a period of 10 years.	2006
6	India Nepal Treaty of Trade (March 2007)	This is a comprehensive agreement on goods that provides broad market access to Nepal's export to India.	2009
7	India Korea Comprehensive Economic Partnership Agreement (IKCEPA)	It is comprehensive and covers goods, services, investment, government procurement etc.	2010
8	India Japan Comprehensive Economic Partnership Agreement (IJCEPA)	It is comprehensive and covers goods, services, investment, government procurement etc.	2011
9	India-Malaysia Comprehensive Economic Cooperation Agreement (IMCECA)	It has been built upon the concessions under the India-ASEAN FTA.	2011
10	India-ASEAN Comprehensive Economic Cooperation Agreement (IACECA)	The free trade area came into effect on 1 January 2010 but was confined only to goods. Subsequently, the India ASEAN Agreement on Services and Investment was signed in November 2014. ASEAN member nations are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.	2015
11	India–UAE Comprehensive Economic Partnership Agreement	Signed in February 2022.	To be implemented
12	India-Australia Comprehensive Economic Cooperation Agreement (CECA)	Signed in April 2022.	To be implemented

Source: https://www.nsez.gov.in/Resources/Trade/FTAs.pdf

Table 3: PTAs signed by India as of March 2022

Sl no	Title	Description	Year of implementation
1	Asia Pacific Trade Agreement (APTA)	Its current members are Bangladesh, China, India, South Korea, Lao, Sri Lanka and Mongolia.	1975
2	The Global system of trade preferences among developing countries (G.S.T.P)	It is a preferential trade agreement signed on 13 April 1988 with the aim of increasing trade between developing (G77) countries. Its entry into force was on 19 April 1989.	1989
3	India and Afghanistan Preferential Trade Agreement	In November 2011, India removed basic customs duties for all SAARC LDCs at the SAARC Summit in Male which gave all products of Afghanistan (except alcohol and tobacco) duty-free access to the Indian market.	2003
4	India-Chile Preferential Trade Agreement	The framework Agreement to Promote Economic Cooperation between India and Chile was signed on January 20, 2005, and PTA was implemented on 11 September 2007.	2007
5	India-MERCOSUR Preferential Trade Agreement	MERCOSUR is a trading bloc in the South American region comprising Argentina, Brazil, Paraguay and Uruguay.	June 2009

Source: https://www.nsez.gov.in/Resources/Trade/FTAs.pdf