

'FTAs don't always accelerate exports, promote manufacturing'

It is 'erroneously' believed that most world trade happens through the FTA route, but in reality, it is less than 20 per cent, says GTRI report

NEW DELHI: Countries negotiating free trade agreements (FTAs) need to keep in mind eight "myths" which surround these pacts, like they lead to accelerated increase in exports and promote domestic manufacturing, according to a report by think-tank GTRI.

The report by Global Trade Research Initiative (GTRI) claims to dispel these 'myths', including that FTAs weaken the WTO (World Trade Organisation), countries are rushing to do FTAs, and these pacts promote investment and lower prices.

It is "erroneously" believed that most world trade happens through the FTA route, but in reality, it is less than 20 per cent, said the report titled 'FTAs: Fabulous, Futile, or Flawed?'

It is also not true that countries world over are rushing to do FTAs and in fact these pacts are "enthusiastically" embraced mainly by east Asian economies or countries that have lowered their customs duties close to zero.

"Major industrial countries/regions do FTAs selectively. The USA has no FTA with significant economies like



It is also not true that countries world over are rushing to do FTAs and in fact these pacts are "enthusiastically" embraced mainly by east Asian economies or countries that have lowered their customs duties close to zero

the European Union, China, Japan, ASEAN (Association of Southeast Asian Nations), or India. The EU currently has 41 trade agreements. But these represent just 32 per cent of the EU's external trade. Most of its FTAs are with raw material suppliers and small countries," it noted.

While the FTAs have poten-

tial, they could not dent the multilateral trading system as far as standard trade instruments like tariffs are concerned, as about 83-85 per cent of the world trade takes place outside these pacts and under the WTO rules.

On the myth that FTAs lead to accelerated increase in exports, it said that since less

than 20 per cent of world trade is happening at concessional customs duties, India needs additional strategies to promote 80 per cent of trade outside this route.

"Also, the mere signing of an FTA does not guarantee an increase in exports. Chances of an increase in exports due to the signing of FTAs are low if import duties in the partner country are low. From this count, FTAs are of minimal use for increasing exports to Singapore, or Hong Kong, as regular (Most Favoured Nation) import duties are zero," it said.

Trade agreements with Malaysia, Japan, Australia, New Zealand and Brunei benefit only a few product groups as most imports into these countries happen at zero duty.

"The share of ASEAN in India's export was 10.4 per cent in 2010, the year of the signing of the agreement. The share has remained almost the same, even after over a decade.

"During this period, India's deficit with ASEAN has expanded from \$6.7 billion to \$24.2 billion. A quantum jump in India's export will require enhancing competitive-

ness at all levels and changing the product profile of Indian exports," it pointed out.

Further, it said zero-duty imports of finished goods from the FTA partners may disrupt many domestic manufacturing programs.

"The US has an active Make in USA programme... In India, programmes like Production Linked Incentive Scheme (PLI), Phased Manufacturing Performance (PMP) recommend zero or low-duty import of inputs and high duty on finished goods to support indigenous production," it added.

The report further said there is mixed evidence that these agreements promote investments and lower prices in the respective countries that are entering into the pact.

Former Indian Trade Service officer Ajay Srivastava is the co-founder of GTRI. He took voluntary retirement from the Government of India in March 2022. He has rich experience in trade policy making, and issues related to the WTO and FTAs. He was involved in the negotiation process of India's free trade agreements with Japan and Australia. PFI