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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**FREE TRADE AGREEMENTS (FTAS):
OPPORTUNITIES AND EMERGING
CHALLENGES FOR INDIA**

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FREE TRADE AGREEMENTS (FTAs): OPPORTUNITIES AND EMERGING CHALLENGES FOR INDIA

Context

- India's FTA network has expanded to **15 agreements covering 27 countries**, with the **India–Oman Comprehensive Economic Partnership Agreement (CEPA)** coming into effect, while negotiations with several other countries and blocs are nearing completion.

About Free Trade Agreements (FTAs)

- A **Free Trade Agreement (FTA)** is a treaty between two or more countries that aims to reduce or eliminate tariffs, quotas, and other trade barriers to facilitate the free flow of goods, services, investments, and technology.
- Objectives of FTAs:** To expand market access for exports, enhance economic cooperation, promote investment flows, improve global competitiveness, and integrate domestic industries into global value chains (GVCs).
- India has increasingly used FTAs as a strategic instrument to boost exports, attract investments, and diversify supply chains.

Key Dimensions of FTAs

- Trade Liberalisation:** Reduction or elimination of customs duties on goods and services.
- Investment Facilitation:** Encourages cross-border investments through stable and predictable rules.
- Services Trade:** Greater mobility for professionals and market access in sectors such as IT, finance, and healthcare.
- Rules of Origin (RoO):** Determine whether a product qualifies for preferential tariff treatment under an FTA.
- Supply Chain Integration:** Facilitates participation in regional and global value chains.
- Strategic and Geopolitical Cooperation:** FTAs strengthen economic diplomacy and strategic partnerships.

India's FTAs with Countries and Regional Groupings

Agreement	Key Features
ASEAN-India FTA	Trade in goods, services, and investment with Southeast Asian nations.
India-Japan CEPA	Tariff reduction, services access, and investment cooperation.
India-South Korea CEPA	Enhanced trade in manufacturing and technology sectors.
India-Singapore CECA	Focus on trade, services, and financial cooperation.
India-UAE CEPA	Boosts bilateral trade and logistics connectivity.
India-Australia ECTA	Greater access for Indian goods, students, and professionals.
India-Mauritius CECPA	Trade and investment facilitation.
India-EFTA TEPA	Covers Switzerland, Norway, Iceland, and Liechtenstein with investment commitments.
India-Oman CEPA	Expands market access and economic cooperation in goods and services.

- Ongoing Negotiations:** European Union (EU), United Kingdom (UK), Gulf Cooperation Council (GCC), Peru, Israel and others
- Once concluded, India's FTA partners could account for nearly **75% of India's exports**.

What are the Core Issues and Concerns in India's FTAs?

- Rising Trade Deficits:** The trade deficit with **ASEAN** increased by **381%**; with **Japan**, it rose by **318%**, with **South Korea**, it increased by **268%**.

- ◆ By contrast, India's trade deficit with the rest of the world grew by **142%**.
- ◆ Over the last three years, India's annual trade deficit with ASEAN, Japan, and South Korea averaged around **\$62 billion**.
- ◆ Similarly, under newer FTAs such as those with the UAE, Australia, Mauritius, and EFTA countries, imports have significantly outpaced exports.
- **Reasons For Rising Trade Deficits:** Most FTA partners already maintain very low Most Favoured Nation (MFN) tariffs, whereas India's trade-weighted MFN tariff remains around **12.6%**.
 - ◆ Consequently, tariff reductions provide greater benefits to foreign exporters entering India than to Indian exporters entering partner markets.
- **Low Utilisation of FTA Benefits by Indian Exporters:** Indian exporters often fail to fully utilise preferential market access, despite signing multiple FTAs.
 - ◆ **Reasons:** Low or zero tariffs already exist in many partner countries, compliance with **Rules of Origin (RoO)** requirements can be costly, and certification procedures and documentation burdens discourage MSMEs.
 - ◆ **Impact:** Export-side FTA utilisation is estimated at only **20–30%**, and import-side utilisation is much higher, around **60–70%**.
- **Worsening Inverted Duty Structure:** An inverted duty structure exists when duties on raw materials and inputs are higher than duties on finished products.
 - ◆ **Examples:** Steel and aluminium attract MFN duties of **7.5–10%**, and machinery and engineering goods made from these materials can enter India duty-free under several FTAs.
 - ◆ **Consequences:** Higher production costs for Indian manufacturers, reduced domestic value addition, weakening of the 'Make in India' initiative, and lower global competitiveness.
- **'Make in ASEAN, Sell in India' Phenomenon:** FTAs, combined with inverted duty structures, can create incentives for firms to manufacture outside India.
 - ◆ **Emerging Trend:** Chinese firms have expanded manufacturing in Vietnam, Thailand, and Indonesia. Some Indian companies have also established production facilities in ASEAN countries. Products manufactured there can be exported duty-free to India under FTAs.
 - ◆ **Impact:** Relocation of investment, loss of domestic employment opportunities, weakening of India's manufacturing ecosystem, and reduced supply-chain resilience.

Way Forward: How Can India Strengthen and Leverage FTAs?

- **Rationalise Tariff Structure:** Reduce duties on critical industrial inputs, and align domestic tariffs with FTA commitments.
- **Strengthen Rules of Origin:** Prevent tariff circumvention and dumping through third countries, and ensure genuine value addition by partner countries.
- **Improve FTA Utilisation:** Simplify certification procedures, create awareness among MSMEs, and expand digital trade facilitation mechanisms.
- **Enhance Export Competitiveness:** Improve logistics efficiency, reduce transaction costs, and strengthen quality standards and compliance infrastructure.
- **Periodic FTA Review Mechanism:** Conduct sector-wise impact assessments, and introduce safeguard measures where necessary.
- **Integrate with Global Value Chains:** Promote domestic manufacturing clusters, and encourage technology transfer and innovation-led production.
- **Focus on Services Exports:** Leverage India's strengths in IT, healthcare, education, and professional services.

Conclusion

- FTAs remain a crucial pillar of India's trade and economic strategy. However, rising trade deficits, low utilisation rates, inverted duty structures, and the relocation of manufacturing activities highlight the need for careful policy calibration.
- A balanced approach that combines market access with domestic industrial competitiveness will ensure that FTAs contribute to **Atmanirbhar Bharat, Make in India**, and India's aspiration of becoming a global manufacturing and export powerhouse.

Daily Mains Practice Question

[Q] Free Trade Agreements (FTAs) can expand market access but may also weaken domestic manufacturing if not supported by appropriate tariff and industrial policies. Critically Examine.

Source: IE

