DAILY EDITORIAL ANALYSIS

TOPIC

INDIA-NEW ZEALAND FTA: FROM UNTAPPED POTENTIAL TO A NEW TRADE ARCHITECTURE

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Context

- India has welcomed the passage of the New Zealand law for the implementation of the **India-New Zealand Free Trade Agreement (FTA),** a step toward operationalising an agreement aimed at boosting bilateral trade and investment ties.

About India–New Zealand FTA

- The proposed India-New Zealand FTA aims to establish a more predictable and commercially enabling environment for bilateral economic engagement. Features Include:
- **100% duty-free access:** New Zealand has offered 100% duty-free access on 100% of tariff lines to India's exports.
- **Investment & Workforce Opportunities:** USD 20 billion investment commitment over 15 years, reinforcing long-term economic and strategic collaboration.
- **Services:** It provides professionals and students with better market access and clearer mobility-related provisions.
- **Sensitive Sectors:** India has protected sensitive sectors such as **dairy**.
  - The agreement therefore combines tariff liberalisation with provisions concerning services, investment, rules of origin, trade facilitation and non-tariff barriers.

Untapped Potential Between India & New Zealand

- In FY 2024-25, **two-way merchandise trade** was about USD 1.3 billion with **exports from India** at about USD 711 million, registering robust **growth of 32 per cent Year-on-Year.**
  - But the total trade remains small relative to India's commerce with larger partners.
- The FTA can allow India to diversify its export markets and to deepen economic ties with the **broader Indo-Pacific region.**
- **Duty-free access** can make sectors like textiles, apparel, leather and handicrafts, which are **labour-intensive**, more competitive on pricing.
- Tariff preferences are particularly interesting in a market when competitive exporters already have FTAs, as earlier tariffs were as high as 10%.
- Services are another big opportunity. Better market access and mobility provisions can help India's capabilities in IT, consulting, engineering, healthcare, and education.

New Architecture of FTAs: Beyond Tariff Reduction

- **Rules of Origin and Compliance:** Preferential access is subject to compliance with **Rules of Origin (RoO).**
  - The agreement includes product-specific norms, documentation requirements and traceability methods to prevent misuse through **transshipment**.
  - Businesses require good supply-chain visibility and documentation to take advantage of tariff preferences.
- **Trade Facilitation:** Faster customs clearance, digital certification and simpler procedures can minimise delays, inventory costs and working-capital demands and improve supply-chain assurance.
- **Non-tariff barriers:** For some sectors, such as medicines, food processing, chemicals and agriculture, regulatory licenses and standards can be as important as tariffs.
  - It points out that the benefits of streamlined and predictable regulatory procedures can be substantial.
- **Agricultural Production Partnership:** It is designed to help farmers, boost production, and integrate them into global value chains.

Related Concerns & Issues

- Despite its opportunities, several issues require attention:
  - **Domestic Sensitivity:** India's dairy protection is indicative of worry about the impact of trade liberalisation on sensitive domestic producers.
  - **Utilisation Gap:** Tariff reductions are likely to be of little use if Indian enterprises are unaware or do not have the capacity to meet RoO and documentation standards.
  - **Non-tariff Barriers:** Standards, certification and regulatory procedures can still limit access to markets even when tariffs are removed.
  - **Supply-chain Readiness:** Smaller exporters may face disproportionate challenges from increased traceability and compliance requirements.
  - **Trade Imbalance:** Continued liberalisation should help ensure that better market access translates into substantial increases in Indian exports.

Way Forward

- India needs to adopt an **FTA utilisation strategy** rather than viewing the agreement as a tariff reduction mechanism. Businesses need to:
  - Review the **Harmonised System (HS) codes** and product eligibility.
  - Assess conformity with **product-specific rules of origin.**
  - Enhance supply chain documentation and traceability.
  - Identify export potential in sectors of special interest, notably in labour-intensive manufacturing and services.
  - Re-evaluate **landed-cost models** to quantify the value of tariff preferences.
  - Strengthen institutional capacity of **MSMEs** to use FTA provisions.
  - Encourage cooperation in regulatory matters to decrease non-tariff obstacles.

Conclusion

- The India–New Zealand FTA represents India's broader shift towards a **facilitation-led trade policy**, where competitiveness depends on lower tariffs and on reduced transaction costs, regulatory predictability, supply-chain efficiency and compliance capacity.
- Its success ultimately depends on how effectively Indian businesses convert negotiated market access into actual exports, investment and services growth.

Source: TH

Daily Mains Practice Question

[Q] **The India–New Zealand FTA represents a shift from conventional tariff liberalisation towards a new trade architecture centred on services, investment, trade facilitation and regulatory predictability. Discuss.**

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