

Examining India's benefits from trade agreements

There has been widespread debate in the policy and academic circle on the effectiveness of the trade agreements India has signed with other countries or regions. Public dialogue on this subject is dominated by the view that India has not benefitted from the majority of its free trade agreements (FTAs) or Comprehensive Economic Cooperation/Partnership Agreements (CECAs or CEPAs).

In this context, a report released by the Centre for Regional Trade, an autonomous Think-Tank, under the Ministry of Commerce and Industry, Government of India in 2019 provides three important ways India has benefitted from these trade agreements. So far, India has signed 10 FTAs (which also includes CECAs or CEPAs) and six preferential trade agreements (PTAs) with various countries or country groups.

Among these, the most prominent ones are India-ASEAN trade in goods agreement, India-South Korea CEPA, India-Japan CEPA, India-Singapore CECA and India-Malaysia CECA. The report examines the effectiveness of these agreements and points to the following three positive outcomes for India from these pacts:

1. **Capacity to sustain trade deficit increased:** The study found that India's trade deficit with these countries widened after the signing of FTAs. However, even when an increase in imports is greater than the increase in exports and thereby resulting in a greater trade deficit for India, growth in imports must not be seen in isolation, the authors of the study note. Rather, it is important to consider trade balance as a proportion of total trade in both pre-FTA and post-FTA scenario. Though India's trade deficit as a percentage of total trade has increased, India's total trade has also increased. This implies that the capacity to sustain trade deficit has also increased.

According to the authors, trade deficit must be viewed with respect to the capacity to afford it as given by total trade. Trade deficit to total trade ratio vis-à-vis ASEAN has decreased from -17.4% in 2009 to -15.9% in 2018. This implies that for the most important trade and FTA partner both in terms of total trade and trade deficit, which is ASEAN, the capacity to afford trade deficit has increased.

2. **Favourable trade structure:** The study notes that FTAs have led to favourable trade structure between India and the signatory countries. This means, majority of the imports of India from ASEAN and other FTA partners are intermediate goods, which are useful inputs for India's manufacturing sector. Secondly, majority of India's exports to these signatory countries are non-raw material goods, thereby implying domestic value

addition in India. First, India's exports are primarily accounted for by non-raw materials with respect to each FTA partner. It ranges between 78% to 96%. In the case of ASEAN, non-raw materials account for 78% of total exports to ASEAN. Second, India's imports are primarily accounted for by non-consumer goods with respect to each FTA partner. It ranges between 78% to 89%. In the case of ASEAN, non-consumer goods account for 84 percent of total imports from ASEAN.

3. **Saving of foreign exchange:** The study found that India has benefitted by reducing its import bill and thereby saving precious foreign exchange by signing FTAs with partner countries. According to the study, had India not signed FTAs with ASEAN, Japan, Singapore and South Korea, India would have imported the same goods from other countries at significantly high unit value, thereby increasing our cost of imports.

The study also provides policy suggestions that need to be considered while signing FTAs in future. While signing FTAs in future, both the sides should set up a working committee system with periodic meetings for collective resolution of disagreements. This committee should be supported by a sound dispute redressal system to facilitate the working of the agreement.

Before entering into FTAs, the government should launch a consultative mechanism across all relevant ministries and departments, besides non-government stake-holders, particularly the industry. The government should also hold a comprehensive consultation with state governments.

In future, India should focus on those regions or countries with whom trade linkages are still relatively low. Some of these regions are Eurasia, including Central Asia; South Asia; Africa and Latin America.

Detailed report can be accessed from:

<https://www.crt.org.in/India's%20FTAs%20Rajeev%20Kher%20&%20Ram%20Upendra%20Das%20CRT%20RPP%20No.1%202019.pdf>

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