

# Why bilateral trade deals are beneficial for India

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## Synopsis

The slew of FTAs should be seen in the context of India's assumption of the G20 presidency under Prime Minister Narendra Modi from next week. In line with India's global aspirations, the country has adopted an aggressive approach to FTA negotiations, especially in forging economic partnerships with advanced economies.



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On Tuesday, the Australian parliament passed the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) that was signed in April. This comes nine months after the India-UAE Comprehensive Economic Partnership Agreement (CEPA) was signed in February and came into force in May. In the pipeline are more free trade agreements (FTAs) with the likes of Britain, Canada, the EU, the Gulf Cooperation Council (GCC) and Israel.

This slew of FTAs should be seen in the context of India's assumption of the G20 presidency under Prime Minister Narendra Modi from next week. In line with India's global aspirations, the country has adopted an aggressive approach to [FTA](#) negotiations, especially in forging economic partnerships with advanced economies. The revised thinking on the FTA agenda reflects a new resolution to deeply integrate [India](#) with world's leading economies.

Trade openness is crucial for sustaining per-capita GDP growth. Empirically, open economies grow faster than closed ones, and there is no better example than India's own experience since the economic reforms of the 1990s. If India's trade competitors have deep trade agreements with large economies, India, too, cannot afford to remain outside the FTA paradigm. Preferential access to large economies

provides higher export possibilities and trade momentum. Most East Asian countries with which India competes for export markets have a network of agreements with large economies.

Does India need to be pessimistic given its past experience of negotiating trade agreements with East Asian economies? There are sceptics. In a report released earlier this month, 'FTAs: Fabulous, Futile or Flawed?', Global Trade Research Initiative, for instance, argued that India is unlikely to gain from the signing of new FTAs currently under negotiation. On a closer look, Directorate General of Commercial Intelligence and Statistics (DGCIS) data shows that India's merchandise exports to countries and regions with which India has concluded FTAs have registered a growth of 20.75% in the last five years. Additionally, India's exports to Asean have witnessed an increase from \$25.13 billion in 2015-16 to \$31.49 billion in 2020-21.

Earlier this year, India achieved the highest-ever merchandise export of over \$417 billion and services export of \$254 billion despite the pandemic. As the Economic Survey 2020 pointed out, the argument that FTAs have worsened India's trade deficit with partners is a mercantilist way of evaluating the gains from trade.

It is a fact that the applied most-favoured nation (MFN) tariffs in most advanced countries is low. However, there are pockets of high tariffs in these economies on products of export interest to India, for example, clothing, pharmaceuticals and chemicals. Also, specific duties whose [ad valorem](#) duty-equivalent could get into double digits constitute a real access barrier in export markets. A good example is the high specific duty on several agricultural products in Europe.

Non-tariff barriers including sanitary and phytosanitary conditions, licensing requirements, delay in market access approvals and complex registrations were not adequately addressed in earlier FTAs. The real promise of FTA is in negotiating such behind-the-border barriers.

To gain from FTAs, India needs to write its own script - to identify a manageable transition or tariff phase-out period, with calibrated front-end and back-end loading. Innovative mechanisms such as tariff rate quotas, snap-back mechanisms, separate annexes and carve-outs, mutual recognition and equivalence agreements need to be fully explored.

The ability to benefit from an FTA will depend on a number of intervening variables like good infrastructure and lower cost of doing business. On the whole, propelled by flagship GoI programmes such as Aatmanirbhar Bharat, Make in India, production-linked incentives (PLI), Digital India and [Gati](#) Shakti, India is better placed today to leverage the global political and economic climate to become an integral part of the geo-security driven global value chains (GVCs).

Negotiating capacity is crucial to come out ahead in trade negotiations. The present government has restructured the department of commerce to build capabilities and a strong team to effectively negotiate disciplines

on new-age topics. GoI has institutionalised mechanisms for extensive engagements with industry, exporters and other stakeholders as part of FTA preparation. There is also a need to closely study the evolving templates in trade agreements.

Remaining an isolated, autarkic and inward-looking economy is simply not an option for India. With its sights set on an ambitious target of high economic growth to become a developed nation, negotiating [bilateral trade deals](#) with imagination is undoubtedly in India's interest.

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