



Realignment Towards FTAs

This editorial is based on [“India’s FTA imperative”](#) which was published in Financial Express on 28/12/2022. It talks about India’s Alignment Towards FTAs and its impacts on global value-chain.

For Prelims: Free Trade Agreement (FTA), Value-added Exports, Intellectual Property Rights (IPR), Small and Medium Enterprises (SMEs), Executive Accountability, Economic diplomacy, Drugs and Pharmaceuticals, Committee on Commerce, Legislative Oversight of FTAs, Trade unions.

For Mains: Significant Benefits of Realignment Towards FTAs, Challenges Related to India’s FTAs, Scrutiny of FTAs.

While the [Covid-19 pandemic](#) has made the world realise the importance of secure and reliable [supply chains](#), there have been concerns regarding economic self-interest and slowdown in global trade.

Recovering from the pandemic, **India has undertaken a slew of measures to facilitate trade** with the aim of manufacturing for **export** and positioning itself as a global supply chain hub ([PLIs](#), [Gati Shakti master plan](#), **faceless and paperless cargo clearance**, etc.).

However, realigning its policies to seek **global market access** by partnering with like-minded countries through [Free Trade Agreement \(FTA\)s](#) is most crucial towards this aim.

What is a Free Trade Agreement (FTA)?

- **Free Trade Agreements (FTAs)** are agreements between two or more countries to reduce or eliminate tariffs and other trade barriers on a wide range of goods and services.
- India has **entered into a number of FTAs** with other countries in order to expand its trade and boost its economic growth.

What are the Significant Benefits of Realignment Towards FTAs?

- **FTA aids integration with the global value chain** as a reliable supply hub, which is important in the post-pandemic world where businesses look for safe and cost-efficient trading routes.
- They also **provide deeper market access for Indian [value-added exports](#)** for the consuming markets of the West.
- They ensure the **removal of existing non-tariff barriers to goods and services exports** with fair and reciprocal trade terms.
- And finally, they are important to **leverage better opportunities vis-à-vis regional**

competitors who already have preferential access.

What are the Challenges Related to India's FTAs?

- **Market Access:** One of the main challenges in **India's FTAs is the lack of market access for its products in other countries.**
 - Many Indian products face **high tariffs and other barriers** to entry in other countries, which makes it **difficult for Indian businesses to compete in those markets.**
- **Intellectual Property Rights:** Another challenge is the **protection of [intellectual property rights \(IPR\)](#) in other countries.**
 - India has a large number of **[small and medium enterprises \(SMEs\)](#)** that rely on the protection of their IPR in order to compete in international markets. However, **many countries have stronger protections for IPR**, which can make it difficult for Indian businesses to sell their products in those markets.
- **Trade Deficit:** India has a trade deficit with many of its trading partners, **which means it imports more goods and services from those countries than it exports.** This can be a challenge for India's economy, as it relies on exports to drive growth.
 - India has accounted for a trade deficit of **USD 16 billion in 2020-21 with [ASEAN countries](#)**. At the same time, the trade deficit with Japan remained **USD 6.5 billion in 20-21.**
- **Impact on Agricultural Sector:** The **[agricultural sector](#) is a key part of India's economy**, and many farmers in India rely on exports to make a living.
 - However, India's FTAs with other countries have often led to an increase in imports of agricultural products, **which can be a challenge for Indian farmers.**
- **Lack of Transparency:** Most FTAs are **negotiated behind closed doors** without much information on the objectives and processes involved.
 - Moreover, there are **no institutional mechanisms to scrutinise the actions** of the executive during and after the FTA has been signed.

What Should be the Way Forward?

- **Scrutiny of FTAs: Legislative oversight of FTAs** should be handled by the **Committee on Commerce**, by discussing different aspects of agreements and negotiations, in a way **maintaining [executive accountability](#) to the legislature.**
- **Boosting Domestic Production** India needs to strengthen its domestic manufacturing base in **value-added products like engineering goods, electronic products, [drugs and pharmaceuticals](#), textiles**, and agriculture machinery, that could be used to boost exports.
- **Developing a Comprehensive FTA Strategy:** India should develop a **comprehensive strategy for its FTA negotiations**, including clear goals and objectives, and a plan for how to achieve them.
 - This should involve consultation with key stakeholders, such as **businesses, trade unions, and civil society groups.**
- **Reviewing and Updating Existing FTAs:** India should regularly review its existing FTAs to ensure that they are still **providing benefits to the country and its trading partners.**
 - This may involve **negotiating updates or amendments to the agreements** to address changing economic conditions or other factors.
- **Linking FTAs with India's Act East and Neighbourhood Policy:** India should consider negotiating **regional FTAs with countries in its immediate region**, such as those in **[South Asia](#) or [Southeast Asia](#).**
 - This could help to increase trade within the region, boost economic development in the area **through increased connectivity and [economic diplomacy](#).**

Drishti Mains Question

Discuss what can be significant benefits of realignment towards Free Trade Agreements for India.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q1. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if (2018)

- (a) Industrial output fails to keep pace with agricultural output.
- (b) Agricultural output fails to keep pace with industrial output.
- (c) Poverty and unemployment increase.
- (d) Imports grow faster than exports.

Ans: (c)

Q2. The SEZ Act, 2005 which came into effect in February 2006 has certain objectives. In this context, consider the following: (2010)

1. Development of infrastructure facilities.
2. Promotion of investment from foreign sources.
3. Promotion of exports of services only.

Which of the above are the objectives of this Act?

- (a) 1 and 2 only
- (b) 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans: (a)

Q3. A “closed economy” is an economy in which (2011)

- (a) the money supply is fully controlled
- (b) deficit financing takes place
- (c) only exports take place
- (d) neither exports or imports take place

Ans: (d)