



Revising India's Free Trade Agreements

This editorial is based on “[Quest for transparency in FTA negotiations](#)” which was published in The Hindu on 17/11/2022. It talks about the challenges in India's current foreign trade policy and suggests changes that can be made to the same.

For Prelims: Free Trade Agreements (FTAs), Preferential Trade Agreement, Comprehensive Economic Partnership Agreement (CEPA), Regional Comprehensive Economic Partnership (RCEP), South Asian Free Trade Area (SAFTA), Asia Pacific Trade Agreement (APTA), Atma Nirbhar Bharat Campaign, Special Economic Zones.

For Mains: Impact of FTA on the Global Economy, Major Issues Related to India's Foreign Trade Policy, Important Trade Agreements of India.

India has been talking about [Free Trade Agreements \(FTAs\)](#) with several partners - both bilateral and regional - over the past two years in a bid to boost export-oriented domestic manufacturing with an ambitious export shipment target of **USD 450-500 billion by FY23**.

Exports from India reached **USD 418 billion in FY 2021-22**, surpassing their **pre-pandemic level of USD 331 billion in FY 2018-19**. Though achievements in trade are laudable, India still has much potential.

If we go by [India's Trade Portal](#) estimates, there is a huge difference in **India's exports potential and actual exports** in many sectors, especially [pharmaceuticals](#), **gems and jewelry and chemicals**. Therefore, it is time to address sector-specific and market-specific problems so that we fully capitalize on exports across sectors

What is a Free Trade Agreement (FTA)?

- FTA is an agreement between the **countries or regional blocks to reduce or eliminate trade barriers**, through mutual negotiations with a view to enhancing trade.
 - It includes **goods, services, investment, [intellectual property](#), competition, government procurement** and other areas.
- This concept of free trade is the **opposite of trade protectionism or economic isolationism**.
- FTAs can be categorized as [Preferential Trade Agreement](#), **Comprehensive Economic Cooperation Agreement (CECA)**, and [Comprehensive Economic Partnership Agreement \(CEPA\)](#).

What is the Impact of FTA on the Global Economy?

- By blending **local production with foreign trade**, FTAs help boost growth in economies.
 - As **selected goods are produced by every country** at lower costs due to FTAs, international trade increases **production and consumption**.

- In addition to facilitating borderless trade, FTAs help diversify supply chains by making it easier for more businesses to **conduct business across borders**.

What is the State of India's Free Trade Agreements?

- India currently has **12 FTAs** and **India-UAE CEPA is the latest one**.
- After India opted out of the [Regional Comprehensive Economic Partnership \(RCEP\)](#) in November 2019, the **15-member FTA grouping that includes Japan, China and Australia, FTAs went into cold storage for India**.
- But now the **bilateral free trade agreements of India are being negotiated with the United Arab Emirates, the United Kingdom, Australia and Canada**.
- **Important Trade Agreements of India?**
 - [Comprehensive Economic Cooperation and Partnership Agreement \(CECPA\)](#)
 - [South Asian Free Trade Area \(SAFTA\)](#)
 - [Asia Pacific Trade Agreement \(APTA\)](#)
 - [South Asia Preferential Trading Agreement \(SAPTA\)](#)

What are the Major Issues Related to India's Foreign Trade Policy?

- **Lack of Transparency and Scrutiny:** India negotiates most FTAs **behind closed doors** with very little information about the objectives and processes followed and negligible scrutiny.
 - Furthermore, **no institutional mechanisms exist that enable the scrutiny of the actions** of the executive, **during and after the signing of the FTA**.
- **Negative Balance of Trade:** In the past decade, India signed FTAs with the [Association of Southeast Asian Nations \(ASEAN\)](#), the Republic of Korea, Japan, and Malaysia. But India remains in the **negative balance of trade** with countries **such as ASEAN and Japan despite the increase in exports**.
 - India has accounted for a trade deficit of **USD 15.95 billion in 2020-21 with ASEAN countries**. At the same time, the trade deficit with Japan **remained USD 6.49 billion in 20-21**.
- **High Dependence on Imports:** While India is **85% dependent on imports to meet its oil needs**, a domestic coal crisis is also forcing to tap the **overseas supplies of the dry fuel** for meeting the power demand.
 - Further, several developments in geopolitics that include the ongoing [Russia-Ukraine war](#) caused a **huge spike in global oil and commodity prices**, and has disrupted the [global supply chain](#).
- **Misunderstanding Self-Reliance as Protectionism:** The [Atma Nirbhar Bharat Campaign](#) has exacerbated the view that India is increasingly becoming a protectionist **closed market economy**.

What Should be the Way Forward?

- **Towards Open and Competitive Economy:** The **trade policy framework** of India must be accompanied by economic reforms that result in an **open, competitive, and technologically advanced economy**.
 - Therefore, India must focus on **inclusion of entrepreneurs in global economic networks** that will also allow them to pursue **greater financial security**.
- **Strengthening MSME Sector:** With a contribution of about **29% to the GDP and 40% to international trade**, MSMEs are the key players in achieving the ambitious export targets.
 - It is important for India to link [Special Economic Zones with the MSME sector](#) and incentivize small businesses.
- **Enhancing Domestic Base:** 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**.
- **Infrastructural Evolution:** A robust infrastructure network - **warehouses, ports, testing labs, certification centers**, etc. will help Indian exporters compete in the global market.
 - It also needs to adopt modern trade practices that can be implemented through the [digitisation of export processes](#). This will save **both time and cost**.

- **Scrutiny of FTAs:** The **Committee on Commerce** should be tasked with scrutinizing FTAs, discussing different aspects of agreements and negotiations, **thus ensuring executive accountability to the legislature.**

Drishti Mains Question

Provide an overview of India's Free Trade Agreement (FTA) journey and propose major changes in the country's foreign trade policy.

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)