



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.

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)