



Navigating Global Trade Barriers through FTAs

This editorial is based on "[Rise of protectionism and the free trade conundrum](#)" which was published in Hindustan Times on 27/02/2025. The article brings into the picture the global shift towards protectionism, especially in the US, where the revival of the "America First" agenda signals a move away from multilateral trade.

For Prelims: [Free Trade Agreement](#), [Protectionist economic policies](#), [CEPA with the UAE](#), [Production-Linked Incentive \(PLI\) schemes](#), [Make in India](#), [Atmanirbhar Bharat](#), [India-Republic of Korea Comprehensive Economic Partnership Agreement](#), [Minerals Security Partnership](#), [World Investment Report 2024](#), [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#).

For Mains: Role of FTAs in India's Geo-Economic Outlook, Key Issues Protectionism Poses in India's Geo-Economic Outlook.

Despite widespread academic support for [free trade](#), rising [protectionist economic policies](#) have gained global traction, particularly in developed nations like the US, recent election has brought back "**America First**" agenda signals a return to **mercantilist principles, higher tariffs, and bilateral deal-making** outside established multilateral frameworks like the WTO. India must navigate this shifting landscape **through meticulous partnerships and effective negotiation strategies** to defend its interests in bilateral, multilateral trade relations and overall **geo-economic outlook**.

What Role does Free Trade Agreements Play in India's Geo-Economic Outlook?

- **Boost to Exports and Market Access:** FTAs provide Indian exporters preferential market access, reducing **tariffs and non-tariff barriers**, making Indian goods more competitive globally.
 - This is crucial for sectors like **textiles, pharmaceuticals, and electronics**, where India enjoys a comparative advantage.
 - With growing global trade fragmentation, FTAs help Indian industries integrate into global supply chains, enhancing export-led growth.
 - For instance, under the [CEPA with the UAE](#), India's exports to the UAE reached **\$31.3 billion in 2022-23**, marking a **12% increase from \$28 billion in 2021-22**.
- **Job Creation and Industrial Growth:** By expanding market opportunities, FTAs encourage **manufacturing expansion**, boosting employment in labor-intensive sectors like textiles, leather, and agriculture.
 - Lower input costs due to **duty-free imports under FTAs** also help MSMEs scale up and compete globally.
 - Strengthening domestic industries through FTAs aligns with **India's [Production-Linked](#)**

[Incentive \(PLI\) schemes](#), attracting foreign investment.

- [India's textile industry](#), once faced a setback, is now on the brink of expansion, with total textile exports projected to reach US\$ 65 billion by FY26, largely attributed to India's rising trade agreements.

- **Strengthening India's Position in Global Supply Chains:** FTAs facilitate integration into **global value chains (GVCs)** by promoting trade in intermediate goods, reducing dependency on single sources like **China**.
 - This is vital as India seeks to position itself as a manufacturing hub under '[Make in India](#)' and '[Atmanirbhar Bharat](#).'
 - India's FTA negotiations with the **UK, EU, and Canada** aim to boost sectors like **automobiles, electronics, and IT services**, enhancing India's GVC participation.
- **Attraction of Foreign Direct Investment (FDI):** FTAs improve **investor confidence by ensuring a stable trade environment**, leading to increased FDI inflows, especially in manufacturing and services.
 - By offering tariff concessions, India attracts investment from partner countries looking to access its large domestic market.
 - For instance, the [India-Republic of Korea Comprehensive Economic Partnership Agreement](#) eases restrictions on foreign direct investments for both countries.
 - Also, in **October 2021**, the **UAE pledged to allocate US\$75 billion** in sovereign funds to India to help promote clean energy.
- **Energy Security and Raw Material Access:** Trade agreements facilitate duty-free or concessional imports of crucial raw materials like **crude oil, LNG, and rare earth minerals**, ensuring supply chain resilience.
 - This is critical as India aims to transition to clean energy and reduce import dependency on a few countries.
 - India is actively seeking to secure rare earth minerals through partnerships with countries like Australia, by joining initiatives like the [Minerals Security Partnership](#) (MSP).
- **Agricultural and Dairy Sector Growth:** FTAs open new markets for Indian agricultural exports like **rice, spices, and marine products**, boosting farmer incomes and rural development.
 - However, careful negotiations are needed to protect vulnerable sectors like dairy from excessive competition.
 - For instance, the [India-Japan Comprehensive Economic Partnership Agreement \(CEPA\)](#) removes duties on almost 90% of products traded between the two countries including many agricultural products.
- **Strategic and Geopolitical Leverage:** FTAs are vital tools for economic diplomacy, strengthening India's global influence and reducing reliance on China-centric supply chains.
 - By engaging with diverse partners, India counters China's dominance in regional trade and promotes its Indo-Pacific strategy.
 - For instance, India recently **signed a Trade and Economic Partnership Agreement (TEPA) with EFTA (Switzerland, Norway, Iceland, Liechtenstein) in 2024**, enhancing economic resilience.

India's Major Free Trade Agreements



- EFTA: European Free Trade Association
- TEPA: Trade and Economic Partnership Agreement
- ECTA: Economic Cooperation and Trade Agreement
- CEPA: Comprehensive Economic Partnership Agreement
- CECPA: Comprehensive Economic Cooperation Partnership Agreement
- FTA: Free Trade Agreement
- PTA: Preferential Trade Agreement

What are the Key Issues Protectionism Poses in India's Geo-Economic Outlook?

- **Declining Export Opportunities and Trade Barriers:** As major economies impose **higher tariffs and non-tariff barriers** to protect their domestic industries, Indian exports face reduced market access and competitiveness.
 - This particularly affects labor-intensive sectors like **textiles, gems & jewelry, and agricultural products**, limiting India's ability to expand global trade.
 - Protectionist policies like **localization rules and increased tariffs in the U.S.** and EU hurt Indian manufacturers, leading to a slowdown in export growth.
 - For instance, India is opposed to the **EU's proposal to impose high tariffs of 20% to 35% from January 2026 on high-carbon goods** including steel, aluminium and cement.
 - The EU has so far not indicated any relief, saying the higher tariffs were part of its clean energy targets.
- **Trade Wars and Retaliatory Tariffs:** The rise of trade conflicts between **major economies, such as the U.S.-China trade war** disrupts global trade flows, indirectly affecting India's exports and investments.
 - Countries imposing retaliatory tariffs make Indian goods more expensive, reducing demand in key markets like the U.S. and EU.
 - Additionally, India's trade deficit with key partners may widen as protectionist measures disrupt balanced trade agreements.

- For instance, **India's exports to China contracted by 14.85%**, from \$13.48 billion in April 2023-January 2024 to \$11.48 billion in **April 2024-January 2025** due to extended protectionism measures.
- **Reduced Foreign Direct Investment (FDI) and Capital Inflows:** Tighter investment restrictions in developed economies, particularly on foreign acquisitions, make it harder for Indian companies to expand globally and attract capital.
 - The **U.S. and EU** are implementing stricter foreign investment screening mechanisms, affecting Indian firms seeking to acquire technology and businesses abroad.
 - Global foreign direct investment (FDI) fell by **2% to \$1.3 trillion in 2023** amid an economic slowdown and rising geopolitical tensions, according to the [World Investment Report 2024](#).
 - Total (or gross) FDI inflows into India fell over **16% to \$70.9 billion (Rs 6 lakh crore) in FY24**.
- **Restrictions on IT and Services Exports:** Many developed countries are tightening **work visa policies and implementing data localization laws**, directly impacting India's IT and outsourcing sectors.
 - **Stricter H-1B visa norms and rising anti-outsourcing sentiment** in the U.S. and Europe make it harder for Indian tech professionals to access key markets.
 - Indian skilled workers received **only 72.3%** of all **H-1B visas** issued between October 2022 to September 2023.
 - This weakens India's dominance in the global IT sector, affecting employment and foreign exchange earnings.
- **Disruptions in Supply Chains and Higher Import Costs:** Global protectionist measures disrupt supply chains, making it harder for India to source critical raw materials like **semiconductors, rare earth metals, and energy resources**.
 - Import restrictions in countries like the **U.S. and China** increase costs for Indian manufacturers, affecting sectors like electronics, defense, and renewable energy.
 - For instance, India still **imports 85% of its crude oil**, and post-Russia-Ukraine war, crude oil prices surged, raising India's import bill.
 - Additionally, **India imports about 65-70% of its electronic components, mainly from China**, posing significant concern.
- **Rising Costs for Indian Pharma Exports and Generic Drugs Market:** As developed nations **tighten intellectual property (IP) laws and impose stricter regulatory standards** on pharmaceuticals, Indian generic drug exports face higher compliance costs.
 - Countries like the **U.S. and EU are increasing scrutiny** on Indian pharmaceutical firms, delaying approvals and limiting market access.
 - The [World Health Organization](#) linked Indian-made cough syrups to the acute kidney failure and deaths of 66 children in the Gambia, which further questions India's credibility.
- **Weakening India's Role in Multilateral Trade Agreements:** With rising protectionism, developed economies are focusing more on regional trade blocs like [Comprehensive and Progressive Agreement for Trans-Pacific Partnership \(CPTPP\)](#), sidelining India in global trade negotiations.
 - The lack of access to these agreements puts India at a competitive disadvantage, as its exports face higher tariffs and non-tariff barriers compared to countries within these blocs.
 - **India's exclusion from RCEP** has already resulted in trade losses, and further protectionist trends could isolate India economically.
- **Inflationary Pressures Due to Limited Access to Cheaper Imports:** When countries impose protectionist policies, global prices for essential commodities like **food, fuel, and industrial inputs rise**, increasing inflationary pressures in India.
 - Restrictions on agriculture exports by countries like **Indonesia (palm oil) and Russia (wheat)** have led to higher prices for Indian consumers.
 - [Indonesia's palm oil export ban](#) in 2023 led to an increase in edible oil prices in India.
- **Impact on India's Geopolitical Influence in Global Trade Policy:** As countries embrace economic nationalism, India faces challenges in positioning itself as a leader in global trade governance.
 - The increasing use of **unilateral protectionist measures by developed economies reduces the relevance of WTO-led negotiations**, limiting India's influence in shaping

- fair trade policies.
- Despite India's [G20 Presidency in 2023](#) advocating WTO reforms, major economies like the U.S. and EU continued imposing unilateral tariffs, **sidelining India's push for multilateralism.**

How can India Protect its Economic Interests in a Shifting Geoeconomic Landscape?

- **Fast-Tracking Free Trade Agreements (FTAs) for Market Diversification:** India must accelerate the negotiation and implementation of FTAs with key economies to secure preferential market access and reduce tariff barriers.
 - Strengthening trade ties with regions like the **EU, UK, Canada, and GCC** will help counter growing protectionism in developed economies.
 - A balanced approach is **needed to protect domestic industries while ensuring global competitiveness.**
 - Prioritizing **services trade, digital economy clauses, and investment protection in FTAs** will create long-term economic resilience.
- **Strengthening Domestic Manufacturing and Global Value Chain Integration:** India must deepen its participation in global value chains (GVCs) by **enhancing domestic manufacturing capacity and reducing dependence on imports.**
 - Strengthening the **Production-Linked Incentive (PLI) schemes and simplifying logistics and supply chains** will make Indian industries globally competitive.
 - Focusing on high-value sectors like **semiconductors, electronics, and green technology** will reduce vulnerabilities in strategic areas.
 - Aligning trade policies with **export-oriented manufacturing will help India capture a larger share of global trade.**
- **Enhancing Trade Diplomacy and Strategic Economic Alliances:** India must adopt a proactive trade diplomacy strategy to counter rising protectionism and negotiate favorable trade terms with key partners.
 - Strengthening engagements in forums like the **G20, WTO, and BRICS** will help shape global trade rules that align with India's economic interests.
 - Expanding **economic cooperation with Africa and Latin America** will provide alternative markets and reduce dependence on traditional trading partners.
 - Leveraging **diplomatic channels to resolve trade disputes** and lobbying against unfair trade practices will safeguard India's exporters.
- **Expanding Services Trade and Digital Economy Cooperation:** India must leverage its strengths in **IT, fintech, and digital services** to expand services trade and counter protectionist policies in developed economies.
 - Negotiating liberalized **visa regimes in FTAs** will ensure smooth mobility of **Indian professionals** and maintain India's dominance in global outsourcing.
 - Strengthening **Personal Digital Data Protection Act** and aligning with **global digital trade frameworks** will improve India's position in cross-border digital services.
 - Promoting **domestic fintech startups** and expanding financial services to global markets will ensure long-term economic growth.
- **Strengthening Energy Security Through Diversification and Green Transition:** India must secure **long-term energy supply agreements** and **invest in renewable energy** infrastructure to reduce dependency on volatile global energy markets.
 - Expanding partnerships for **oil and gas imports** with diversified suppliers will ensure stable energy pricing and supply security.
 - Strengthening **domestic solar, wind, and hydrogen energy production** will reduce reliance on fossil fuel imports and enhance sustainability.
 - Encouraging **private investment in clean energy and battery storage** will help India transition to a green economy.
- **Strengthening Agricultural Trade and Enhancing Global Food Security Role:** India must modernize its agricultural sector and **negotiate favorable trade terms to boost agro-exports** while protecting domestic farmers from unfair trade barriers.
 - Investing in **agri-tech, cold storage infrastructure, and farm mechanization** will improve productivity and export quality.

- Strengthening **WTO negotiations to counter unfair subsidies** and restrictive trade policies by developed countries will protect Indian farmers.
 - Promoting **sustainable farming practices and export-oriented agriculture** will position India as a global food security leader.
- **Attracting Foreign Direct Investment (FDI) and Strengthening Industrial Policy:** India must create a **predictable, investor-friendly regulatory environment** to attract global capital in high-growth sectors.
 - **Simplifying land acquisition, taxation policies, and labor laws** will encourage foreign companies to set up manufacturing and R&D centers in India.
 - Strengthening **intellectual property rights (IPR) protection** and ensuring ease of doing business will improve investor confidence.
 - Expanding **special economic zones (SEZs) and industrial corridors** will create globally competitive manufacturing hubs.
- **Strengthening Financial and Monetary Resilience Against Global Shocks:** India must ensure **macroeconomic stability** by **maintaining strong foreign exchange reserves**, managing inflation, and diversifying its trade currency basket.
 - Promoting the **internationalization of the Indian Rupee** and **reducing reliance on the U.S. dollar** for trade settlements will enhance economic sovereignty.
 - Strengthening **trade settlement mechanisms** with emerging economies through **rupee-based trade agreements** will reduce currency volatility risks.
 - Encouraging fintech innovations and digital banking will enhance financial inclusion and resilience against external financial shocks.

Conclusion

In a **world increasingly leaning towards protectionism**, India must strategically leverage FTAs to enhance market access, strengthen global value chains, and attract investments. Balancing domestic industry protection with trade liberalization is crucial to **navigating global trade disruptions**. Strengthening manufacturing, negotiating favorable trade terms, and fostering economic diplomacy will help India secure its geo-economic interests.

Drishti Mains Question:

Discuss the role of FTAs in enhancing India's trade competitiveness. How can India mitigate the risks posed by protectionist measures in its partner economies?

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)

Q. Consider the following countries: (2018)

1. Australia
2. Canada
3. China

4. India
5. Japan
6. USA

Which of the above are among the 'free-trade partners' of ASEAN?

- (a) 1, 2, 4 and 5
- (b) 3, 4, 5 and 6
- (c) 1, 3, 4 and 5
- (d) 2, 3, 4 and 6

Ans: (c)

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