An Untold Story of India's FTAs

An Alternative Narrative

Rajeev Kher

Ram Upendra Das

CRT Research Policy Paper # 01-2019

अं व्या अनु कें

C R I T

Centre For Regional Trade

क्षेत्रीय व्यापार केन्द्र

An Untold Story of India's FTAs

An Alternative Narrative

Rajeev Kher
Ram Upendra Das

CRT Research Policy Paper # 01-2019

अं व्या अनु कें
C R I T

Centre For Regional Trade
क्षेत्रीय व्यापार केन्द्र

The CRT Research Policy Paper series is intended to generate wider and well-informed debate on the subject.

Comments on this paper are invited and may be addressed to the author(s) or Centre for Regional Trade, Centre for Research on International Trade (CRIT), IIFT, Department of Commerce, Ministry of Commerce and Industry, Government of India, 7th Floor NAFED House Ashram Chowk, Ring Road, New Delhi- 110014, Email: headcrt@crt.org.in. CRT Research Policy Papers are available on the CRT website at https://www.crt.org.in.

Suggested Citation:

Kher, Rajeev and Das, Ram Upendra. (2019). 'An Untold Story of India's FTAs: An Alternative Narrative,' CRT Research Policy Paper #1, New Delhi: CRT.

An Untold Story of India's FTAs
An Alternative Narrative

Rajeev Kher*
Ram Upendra Das**

Abstract

There is a widely held view that India's FTAs/CECAs/CEPAs have not helped India but benefitted India's trade partners. Mostly, it is considered that FTAs have had a deleterious effect on Indian economy. The core of this argument is based on the consideration that imports are bad and trade deficits caused by India's FTAs imply that India has been at a loss with respect to its FTA partners. This paper tries to provide both conceptual insights and empirical evidence that helps laying out an alternative narrative of India's FTA experience on some dimensions.

*Distinguished Fellow, RIS and Former Commerce Secretary, Government of India. Email: rajeev.kher@ris.org.in; ** Head & Professor, Centre for Regional Trade, New Delhi. Email: headcrt@crt.org.in

Sincere research support by Ittika Takkar, Anup Kumar Jha, Deepali Kanwar and Cheshta Wadhwa is gratefully acknowledged. Usual disclaimers apply.

I. Introduction

The interlinkages and interdependence among nations across the world have gone beyond the trade in goods to the realms of services, capital flows and movement of people across borders. This is evident from the ever-broadening scope of the trade agreements through which countries seek a holistic economic partnership and cooperation. Thus, Preferential Trade Agreements (PTAs), Free trade Agreements (FTAs) and Regional Trade Agreements (RTAs) have evolved to Comprehensive Economic Partnership/Cooperation Agreements (CECAs/CEPAs). However, India still does not have FTAs with some of the major trade partners such as the United States America, European Union and China. India has also witnessed an increase in the number of Free Trade Agreements (FTAs) in the form of CECAs and CEPAs with both developed and developing nations.

Of late, the critics of the Free Trade Agreements[1] have had views such as regionalism is the second-best alternative to the optimal solution of multilateralism, FTAs are trade diverting and that FTAs do more harm than good to the economy. Akin to such a narrative across globe, there have been similar views in India too, where it is argued that any positive impact of FTAs on Indian economy is yet to be seen. On the contrary, it is believed that FTAs have had deleterious effects on India's trade and economy, especially due to imports outpacing exports causing trade deficit.

Against this backdrop, this paper tries to objectively review India's experience with FTAs, CECAs and CEPAs and explores into an alternate narrative of the subject based on empirical evidence and analysis.

This paper tries to develop a conceptual framework to explain the driving forces behind the increasing number of FTAs; the rising intra-FTA trade coverage; the widening scope of FTAs; and empirically reviews India's experience with the FTAs.

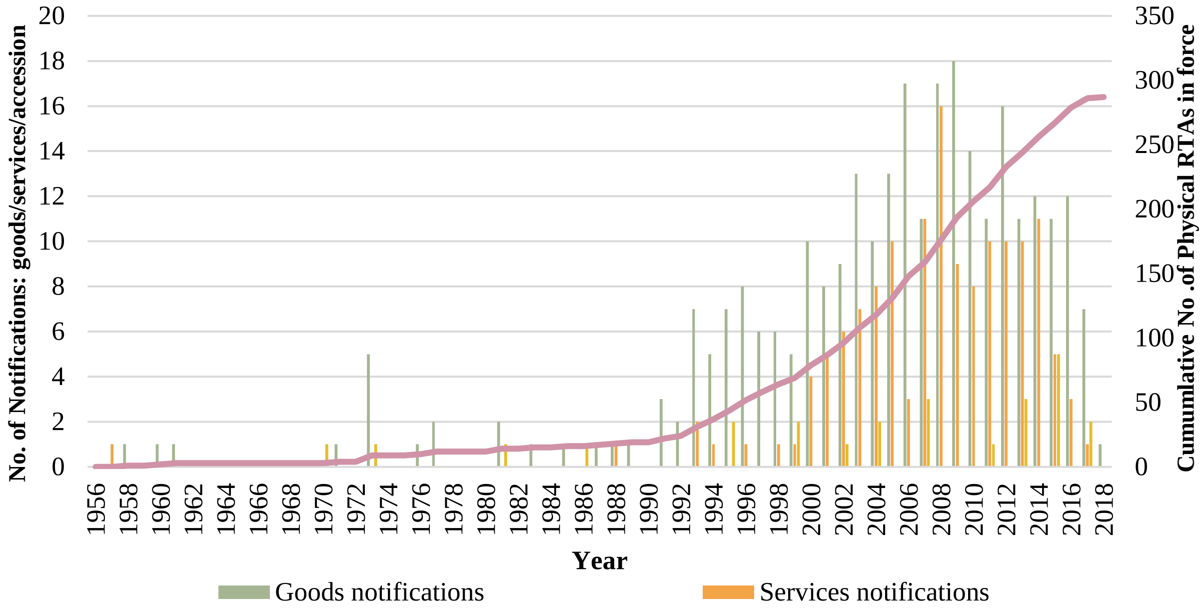
In Section II, the context of the paper is discussed. In section III, we develop a conceptual framework with respect to these contrarian views and the economic, institutional and geo-political forces that drive the Free Trade Agreements. In Section IV, Economic, Institutional and Geopolitical Rationale is discussed followed by Evolution of RTAs/FTAs in India in Section V. In Section VI, India's Experience with FTAs/CECAs/CEPAs is discussed. Further, Sections VII covers alternative views of the private sector. Section VIII concludes and Section IX discusses way forward and provides policy suggestions for making FTAs a more effective engine of trade and economic growth.

II. The Context

The stylized facts relating to FTAs set the context of this paper which entails three dimensions. First, the world trading system is witnessing an unprecedented increase in the number of regional trade integration initiatives in recent times. The total number of RTAs in force and notified to WTO increased from 37 in 1995 to 287 in 2018 (Figure 1).

[1] FTAs have been used in this paper as generic term for different types of trade agreements including RTAs/CECAs/CEPAs.

Figure 1:Evolution of RTAs: 1956 to 2018 (till June)



Source: RTA Section, WTO Secretariat, 2019

Table 1:Region-wise Merchandise Exports to Respective RTAs and Non-RTA Partners (2018)[2]

S. No.	**Region** (Exporter)	2018			
		Exports to RTA partner in USD Billion	**Exports to World in USD Billion**	**Percentage exports with RTAs partners (%)**	**Percentage MFN exports** (i.e. with non-RTAs partners) **(%)**
1	South Asia	68.69	291.03	23.60	76.40
2	ASEAN	644.45	1083.69	59.47	40.53
3	East Asia	1271.81	3242.88	39.22	60.78
4	Oceania	131.95	222.59	59.28	40.72
5	Eurasia	52.71	348.87	15.11	84.89
6	Gulf Cooperation Council	44.90	586.59	7.65	92.35
7	Other West and Central Asia	3.02	12.07	24.97	75.03
8	**Asia (Total)**	2217.51	5787.73	**38.31**	**61.69**
9	**EU Countries**	**3954.08**	**5232.05**	**75.57**	**24.43**
10	**European Free Trade Association (EFTA)**	**49.04**	**398.77**	**12.30**	**87.70**
11	**Other European Countries**	**106.79**	**169.46**	**63.02**	**36.98**
12	Southern African Customs Union (SACU)	42.09	84.43	49.85	50.15
13	Other South African Countries	2.71	2.83	95.64	4.36
14	West Africa	21.71	57.09	38.02	61.98
15	Central Africa	1.03	2.60	39.64	60.36
16	East Africa	4.64	8.51	54.54	45.46
17	North Africa	73.93	88.93	83.13	16.87
18	**Africa (Total)**	146.11	244.40	59.78	40.22
19	**North America (Total)**	1161.34	1794.54	**64.72**	**35.28**
20	**South America (Total)**	175.92	440.22	**39.96**	**60.04**
21	**Central America (Total)**	12.95	56.85	**22.77**	**77.23**
	Total (sum of S. No. 8, 9,10,11,18,19,20 & 21)	7823.73	14124.01	**55.39**	
	Unspecified Countries (3.43% of Global Exports)		501.78		
	Global Exports		**14625.79**		

Source: Calculation based on Regional Trade Agreements Information System (RTA-IS) of WTO, 2019 & WITS Database

[2] Only those countries are reported here for which data is available at WITS for 2018.

Second, with the tremendous increase in the number of RTAs/FTAs, there has also been an evolution of world trade in different regions whereby most significant trade groupings display a proportionately larger share of their total trade conducted under their trade agreements as compared to the MFN route: European Union: 75.57%, North America: 64.75%, Africa: 59.78, ASEAN: 59.47%, Oceania: 59.28%, South Asia: 23.60%. More than half of the world trade i.e. 55.39% of world exports in 2018 were accounted for by intra-regional trade or trade with FTA partners as shown in Table 1.

Thirdly, there has been a tendency observed towards deepening of FTAs. Increasingly, FTAs have taken shape of trade instruments via which countries forge a holistic economic partnership by extending the agreements beyond trade in goods to include trade in services and investment, intellectual property rights, e-commerce, government procurement, labour and environmental standards in a WTO plus framework.

The above raises the question: "What lies behind these upward trajectories characterizing the FTAs in terms of numbers, intra-FTA trade and deepened scope of FTAs?".

This question is addressed in the rest of the paper.

III. Conceptual Framework

One of the most common explanations behind the rise in number of FTAs is provided in terms of lack of progress in World Trade Organization (WTO) negotiations. It is believed that the WTO mechanism is failing to provide an optimal solution to maximize gains from trade through rule-based freer trade regime. Therefore, countries are resorting to FTAs as the second-best alternative. While this explanation is somewhat true, this can only be a partial explanation behind the rising trends of FTAs. The subsequent sections discuss the conceptual framework through economic, institutional and geopolitical rationale behind the rise of FTAs.

IV.1 Economic, Institutional and Geopolitical Rationale

IV.1.1 Economic Rationale

In this section, some of the issues that provide the economic rationale behind the rise in FTAs are analyzed.

IV.1.1.1 Understanding Economics of FTAs: Trade Creation, Employment Generation and Development

The economics of FTAs/CECAs/RTAs needs to be understood clearly and reciprocal benefits emanating from FTAs must be assessed in an objective manner. Considering that imports are only bad is a very narrow and myopic view in the context of FTAs. Imports do provide price-competitive and high-quality inputs to domestic manufacturing and become a source of competitiveness for exports. It is also considered that FTAs are trade diverting hence they result in costly trade from inefficient sources. However, it can be argued that with tariff liberalization commitments under FTA, the additional market access propels a process of scale expansion in the domestic manufacturing, help reaping economies of scale and thus enhanced price-competitiveness which translates trade diversion ultimately into trade creation. With this, there is also greater employment generation. Due to inter-sectoral linkages, a further process of greater economic activity in other sectors is unleashed because of backward and forward linkages of the firms that take advantage of an FTA, thus creating a virtuous economic cycle whereby employment generation and demand creation in other linked sectors yield an overall developmental outcome.

Signing of RTAs/FTAs are permitted under WTO which enables countries to harness WTO plus benefits. FTAs entail economic benefits like increased trade flows, enhanced investment flows, technological spillovers, integration into global value chains, growth and income convergence, intra-industry trade and even peace within a region. These economic benefits serve as driving forces behind the formation of FTAs (Das, 2013). Of these, the impact of the FTAs is often analysed in terms of the extent of enhancement in trade and investment flows. The economics behind the enhancement of trade flows has been explained below in terms of *trade creation and trade diversion in a dynamic setup* vis-à-vis a static setup. The *price effect of FTAs on the export or import demand functions* is also analyzed in terms of income effects when the substitution effect is zero. The enhancement of investment flows is discussed through the *internationalization effect*.

Impact on Trade flows through Trade Creation and Trade Diversion in a dynamic setup

The trade impact of regional integration through FTAs/CECAs/CEPAs is very often captured in terms of Viner's concept of trade creation and trade diversion. Reduction or elimination of tariffs among the FTA member countries leads to a switch of consumption from domestic or non-FTA members to imports from more efficient producers in the FTA member countries. This is called trade creation. Similarly, a shift of consumption from efficient producers in the domestic country or non-FTA member country to low priced imports from relatively non-efficient FTA members on account of tariff reduction or elimination is called trade diversion.

While trade creation is considered welfare enhancing, trade diversion is considered welfare reducing and the impact of tariff reduction or elimination is assessed through the net effect of trade creation and trade diversion on welfare. However, it has been argued as to how trade diversion is not necessarily bad when analysed in a dynamic setting (Das, 2013). While analyzing trade creation and trade diversion effects of RTAs/FTAs, what is generally overlooked is that economic activities are dynamic in nature and so are trade creation and trade diversion and therefore their effects need to be assessed over a period of time. The same can also be explained by constructing a simplified hypothetical numerical example to elaborate on the concept of the dynamics of trade creation and trade diversion.

If we presume that there are three countries viz the Home Country, a prospective FTA partner country and a non-FTA partner country (representing rest of the world). All the three countries produce a product X for which they face both domestic and foreign demand. Assume that for producing product X, the efficiency of non-FTA partner country > efficiency of home country and efficiency of the prospective FTA partner country. Therefore, the three countries supply 1 unit of Product X at different prices in their respective domestic market as indicated in Col 1 of Table 2. According to this, the domestic price in non-FTA partner is USD 1000; in Home country it is USD 1150 and in prospective FTA partner it is USD 1100.

The MFN (applied) rate imposed by the Home country on imports is say 20% for both the non-FTA partner and the prospective FTA partner (shown in Col 2, Table 2). Prices after applying MFN are indicated in Col 3 of Table 2.

It is assumed that in a pre-FTA scenario, the home country does not import product X and each country under consideration faces a domestic demand of 2 units (as shown in Col 4, Table 2).

Now, if the home country enters into an FTA with the prospective FTA partner country and liberalizes its applied tariff to 0 % on imports of product X from the FTA partner, then the per unit price of product X faced by the consumers in the home country would be USD 1100 from the FTA partner vis-à-vis USD 1150 in the home country and USD 1200 (20% tariff) from non-FTA partner (Col 5, Table 2). Thus, the home country consumers will switch to purchasing product X from the FTA partner, which is the cheapest supplier. It is said that trade is diverted from efficient producers in the home country to less efficient producer in the FTA partner country which now has a price advantage due to FTA (Col 7, Table 2).

Now, in a dynamic setup the producers in the FTA partner country are faced with an increased demand of X i.e. 4 units, emanating from domestic demand of 2 units and foreign demand of 2 units from the home country. Thus, FTA partner country producers are able to harness economies of scale and produce efficiently over a period of time (say in year 2) and are able to supply product X at USD 950 per unit in year 2. This results in an increase in consumer surplus in the home country in terms of a fall in per unit price of product X from USD 1100 to USD 950 (as shown in Col. 12, Table 2).

When the FTA partner country becomes more efficient in producing product X, the imports of product X in the home country from the FTA partner represent a shift of demand from a less efficient producer in the home country to most efficient producers in the FTA partner country. Hence, trade is being created. So, what began as trade diversion on signing of the FTA ultimately gets converted into trade creation.

Further, apart from the increase in consumer surplus in the home country, the producers of product X in the home country are exposed to import competition from FTA partner country, the reaction to which would either lead to more efficient production of product X in Home country to compete with the foreign producer or reallocation of resources to a competitive sector (say production of a new product).

Even more, entering into an FTA also gives the home country market access for its goods in the FTA partner country. This enables the home country to reap the benefits of economies of scale and increased demand for its product; increased production and employment generation in the long run as enjoyed by the FTA partner country with respect to product X in this example.

Price effect of Free Trade Agreements on Export and Import demand functions

The reduction in tariffs through FTAs that translates into a comparative price advantage for the exporters vis-à-vis the non-FTA members, is one of the key reasons that drives countries into signing FTAs. The price-advantage is realized when the reduction in price translates into an increased demand for the good whose price has been reduced as per the basic theory of demand. This change in demand due to change in price is the price effect, the magnitude of which depends on the degree of responsiveness of demand to change in price i.e. price elasticity of demand (Mankiw, 2007).

Table 2: A Numerical Example of Trade Creation and Trade Diversion in a Dynamic Setup

	Before FTA				**After FTA**								
					In a static setup			**in a dynamic Setup (year 1)**			**in a dynamic Setup (year2)**		
	Col. 1	**Col. 2**	**Col. 3**	**Col. 4**	**Col. 5**	**Col. 6**	**Col. 7**	**Col. 8**	**Col. 9**	**Col. 10**	**Col. 11**	**Col. 12**	**Col. 13**
	Domestic Price of Product X (in USD)	Applied MFN rate (%)	Price after tariffs are applied (in USD)	Domestic and Foreign demand (in units)	Applied MFN rate (%)	Price after tariffs are applied (in USD)	Domestic and Foreign demand (in units)	Applied MFN rate (%)	Price after tariffs are applied (in USD)	Domestic and Foreign demand (in units)	Applied MFN rate (%)	Price after tariffs are applied (in USD)	Domestic and Foreign demand (in units)
Non-FTA Trade partner Country	1000	20%	1200	2 (domestic demand)	20%	1200	2 (domestic demand)	20%	1200	2(domestic demand)	20%	1200	2(domestic demand)
Home Country	1150		**1150**	2(domestic demand)		1150	0		1150	0			Domestic and Foreign demand of some product will be created
In Prospective FTA partner Country	1100	20%	1320	2(domestic demand)	0%	**1100**	4 (2+2)	0%	**1100**	4 (2+2)	0%	**950**	4 (2+2)

Source: Authors' Calculations

However, this concept of elasticity is often not understood completely and there is a widely held belief that exports of India are relatively less elastic to price and more elastic to income and therefore India has not been able to realize the benefits of its FTAs. In fact, it can be argued that reduction in prices of exports through FTAs due to reduction in tariffs in partner countries does have positive effects on export demand. This is so because while price elasticity of exports captures the movement along the export demand curve; the income elasticity of exports represents the shift in the export demand curve due to changes in the level of foreign country's income captured by its GDP. Thus, the price elasticity of exports comprises, the elasticity of income (real income) and the elasticity of substitution.

Free trade agreements are expected to result in enhanced trade flows as FTAs essentially result in reduction in the price of exports and imports via tariff reductions. Therefore, a reduction in tariff on a good, results in a relaxation of the budget constraint faced by the consumer and has a price effect which can be decomposed into income effect and substitution effect. The change in the demand for the good whose price has decreased due to rise in purchasing power/real income of the consumer resulting from tariff reduction represents the income effect. Simultaneously, this good becomes relatively cheaper for the consumer vis-à-vis other goods available and therefore the consumer shifts his resources (nominal income) from purchasing the other good to this cheaper good to achieve a higher level of utility at the same level of nominal income (Varian, 2009). This shift/switch is the substitution effect due to tariff reduction. In other words, price effect is equal to income effect when the substitution effect is zero. Thus, even if India's exports are income elastic and not price elastic; tariff liberalisation in an FTA partner will lead to a price effect, inherent in which is the income effect because of which, demand for India's exports will rise in the FTA partner country market.

IV.1.1.2. FTAs: Interlinkages among Trade in Goods, Trade in Services and Investment

Two-way Linkages between Trade in Goods and Services

Goods are interlinked through trade. In this context, intra-industry trade and intra-firm trade and their implications for an FTAs needs to be understood so that production similarities do not become a constraint for two-way trade among FTA partners (Das, 2016). This also is the basis of interlinkages across different stages of production whereby imports of parts and components might get linked with exports of finished products linking a country with other FTA partners under the rubric of regional value chains.

Further, trade in goods and trade in services are intertwined such that an impetus to trade in goods cannot be enhanced beyond a limit unless concomitant trade in services is facilitated. For instance, trade in goods is not only facilitated by but is also dependent upon the presence of services, like post-shipment credit, consignment-insurance, bank-guarantees, shipping services, etc. These services also contribute to the competitiveness of exports. Similarly, trade in some service sectors like health is incumbent upon trade in goods pertaining to this specific service sector such as medical devices and pharmaceuticals.

Trade (Goods and Services) and Investment Nexus

There is an inevitable interdependence among trade in goods, trade in services and investment such that any FTA needs to recognize the two-way linkages across these flows.

Next, strengthening of trade-investment linkages is crucial for achieving higher levels of trade amongst FTA partners and for ensuring its developmental impact. Trade-Investment linkages help improving export supply capabilities in the member countries of an FTA. They are also more employment generating with the different types of investment made to take advantage of trade liberalisation. An FTA can spur investment flows in terms of efficiency-seeking regional restructuring, especially, trade-creating joint ventures can have a decisive impact on regional trade flows. The trade-creating joint ventures are in a position to take advantage of a regional FTA.

The economic integration of a group of countries under the framework of FTAs is expected to result in enhanced investment flows among the FTA member countries. Even more, the static effects of trade diversion have a potential for investment creation for the FTA non-member countries from whom trade is diverted to the FTA members for these non-member countries (Kindleberger, 1966). In order to take benefits of the reduced tariff within an FTA, the producers in the non-member countries relocate their production networks in the FTA member countries from where they can export their products to the FTA members.

Further, within an FTA, reduction in tariff barriers results in increased intra-FTA FDI flows through what is referred to as "internationalization' as members of the FTAs seek efficiency of production and investments by realizing the gains from reduced tariff barriers (Salike, 2010; Das, 2013). Therefore, comprehensive trade agreements which have become the order of the day give an impetus to the 'internationalization effect'.

However, a stable macro-economic environment and an investment and business conducive policy regime in the FTA member countries are not just pre-requisites to attracting FDI but are also factors that ensure and boost the positive impact of FTAs on investment inflows in the FTA member countries.

Trade in Goods, Services and Investment: An Integrated Approach for RVCs / Global & Regional Industrial Restructuring

Today over 70 to 80 percent of global trade is in intermediate goods, capital goods and services, highlighting the importance of GVCs and RVCs. India has not been able to hook on to regional and global value chains in a significant manner and should be looking for opportunities of locating itself on these value chains. Global value chains are the current paradigm of manufacturing and an aspirant economy cannot let an opportunity go as these arrangements normally are for long periods with lead companies preferring not to change partners over longer period. RTAs need to be situated in the wider context of gearing to tap the opportunities that open up in RVCs and GVCs. With Industrial Revolution 4.0 on the horizon, a futuristic view of RTAs needs to be taken as RTAs provide a certain degree of continuum with respect to suppliers and demandeurs across countries to a leading manufacturer.

FTAs are also about beyond Tariffs

Tariff reduction/elimination is an important part of an FTA strategy but that alone will not be enough. A deeper understanding will involve going into subsequent layers of non-tariff policies, regulatory mechanisms and legal frameworks. A sound quality-assurance system reassures the consumer, helps absorption of higher technology in manufacturing, adds greater value to products and services responding to a quality-assurance system, develops and retains high-quality scientific manpower and filters out low-quality imports (Kher, 2017).

Thus, practically speaking after the tariff reduction, a frame work of technical/sanitary and Phyto-sanitary regulations, procedures, conformity assessment systems, accreditation framework, mutual recognition arrangements, sectoral regulations and their compliance frameworks, should be negotiated for assured market access. Most front-line trading nations negotiate specific annexes for the product areas of their special interest to obviate any surprises, once the agreement has come into force.

IV.1.1.3. FTAs vs Unilateral Trade Liberalisation

An economy can liberalise its trade policy in three ways: unilaterally, whereby it provides access of its market to the foreign country unilaterally without any reciprocal gains; multilaterally, wherein all countries party to multilateral liberalisation are given the same preferential treatment; and regionally (bilateral/regional), wherein a country can choose its trading partners, and offer tariff concessions on reciprocal basis. In unilateral tariff liberalization there is no reciprocity. Thus, RTAs appear to be better suited for deriving *reciprocal* benefits that too only with the chosen trade partners, rather than the other two options.

IV.1.1.4. Adjustment Cost vs. Efficiency Concerns

There is a unique facet of FTA as a route to import tariff liberalization with a view to infusing efficiency into the domestic market while preventing any tariff liberalization shock to domestic stakeholders when compared to unilateral tariff liberalization across the board. When two or more countries enter into the regime of freer trade to enjoy the benefits of a lower trade protection vis-à-vis the global average trade protection of a non-RTA/FTA scenario, there is a natural tendency of the rest of the world to enter into RTA/FTA with each of the FTA partners to harness the same gains. Likewise, as more countries enter into FTAs even more follow. This gives rise to a *dynamo effect* of RTAs *a la Baldwin*, according to which every other country tries to enter into an RTA with other countries. This tendency occurs due to the intention to secure and maintain market share in countries that enter into bilateral FTAs with other countries. This is one of the reasons why RTAs are here to stay even if the multilateral negotiations succeed.

With the spread of globalization and liberalization, developing countries could not remain insulated to the globalization and liberalization processes. Economic integration, especially in the region through *RTAs/FTAs, provides a beautiful avenue to developing countries for balancing seemingly conflicting objectives of addressing efficiency concerns on one hand and providing a level playing field to stakeholders on the other* - ensured through a phased transition towards a more competitive economic environment with some time for adjustment (Das, 2006 a). This is possible due to the very nature of regional economic integration initiatives. Any import liberalization is calibrated in terms of the choice of a country (or countries), sectors (sectoral coverage), timeframe for liberalization and depth of tariff-cuts. In this sense, it does not open up all sectors to all the countries at the same time. Moreover, import liberalization is done with reciprocity; hence on balance exports also get market access. Moreover, such initiatives have in-built safeguards against any sudden deluge of imports (Das, 2009).

IV.1.2 Institutional Rationale

The institutional rationale behind the proliferation of FTAs also need to be understood as presented below.

IV.1.2.1 RTA-Consistency with Multilateralism

As far as tariff liberalization under WTO is concerned, it pertains to bound tariff negotiations. Hence, FTAs help reduce applied tariffs with a chosen trade partner in a calibrated manner with tariff reductions spread over time, that too with reciprocity in the partner country. They therefore co-exist with WTO and help achieve the objectives of liberal trade of the WTO through their building block role. In view of the above, one may argue that both multilateralism and RTAs are first-best solutions.

When two or more countries enter into RTAs/FTAs, to the extent that their bilateral/plurilateral trade flows are a sub-set of the overall global trade flows, post-RTA/FTA, the global average trade protection level would have declined given the extent of tariff reduction and barrier elimination and the weights of the trade partners in the global trade flows. This is how *RTAs/FTAs serve as a building block towards the objective of trade liberalization of the multilateral process*. Therefore, RTAs are not in conflict with global multilateral trade-liberalization goals (Das, 2013). It is with this reason that provisions for entering into FTAs/RTAs are provided for in the erstwhile GATT and today’s WTO.

IV.1.2.2 The Imperative of RTAs and a Geographical Analysis to select Trade Partners for future

The success of a trade agreement depends on several factors; prominent among them are the criteria for selection of the trading partner and persuasive advocacy with stakeholders. Trading partners must complement each other. Rigor and strategy of selecting products and services for preferential treatment is also necessary. Manufacturing for global competitiveness is organized on the basis of capacities along the value chains, as highlighted earlier. It is important to recognize mutual competitiveness along a given value chain and to build an agreement all along the chain on the basis of respective strengths. An entire ecosystem for trading, including the tariff structure, regulatory ecosystem, logistics and trade infrastructure should be built around these value chains.

India in its pursuits of getting an integral part of global economy must combine its trade-intensification vis-à-vis traditional-developed countries like the US, Canada and the EU with those countries wherein trade linkages are still relatively low: Eurasia, including Central Asia; South Asia; Africa and Latin America with an emphasis on ‘Act East Policy’ focusing RCEP, the mega-grouping involving countries of East and South-east Asia & Oceania and India. The added focus must be on RVCs effected through South Asian and CLMV countries. India exports more in South Asia due to complementarities with smaller neighbors. For the neighbors in South Asia, availability of vast Indian market is a boon. India's economic leadership in South Asia and in extended neighborhood is an opportunity to create South Asian RVCs focusing on 'Make in South Asia'. This needs to be further extended in concentric circles in the extended neighborhood with added emphasis to galvanize India's 'Act East Policy' which possibly can happen in the best possible manner if India plays a pro-active role in RCEP. 'With whom to integrate for what' is the template which needs to be prepared *a priori* as this can become an institutional precursor to India's FTA engagements world-wide.

IV.1.3 Geopolitical Rationale

From Geo-Politics to Geo-Economics

In this backdrop, India's engagements with different countries in various regions would have to clearly focus on geo-economics and any focus on geo-politics must be to an extent that the latter reinforces the developmental outcomes of trade agreements. Hence, quite evidently a perceptible shift is needed from geo-politics to geo-economics in India's international engagements. In other words, it is the economics which should drive politics rather than the other way around and both economic and political objectives must be in sync.

IV.2. Liberalization and Safeguard Mechanisms

The preceding analysis presented a brief overview of the conceptual basis for regional economic engagements. However, such integration attempts are not bereft of certain deleterious implications for the domestic stakeholders. Thus, as in most cases, regional economic integration initiatives also have detailed provisions of safeguard measures, addressing different economic concerns.

Safeguard measures are often confused with protectionist devices (Das, 2009). While protection may mean not committing to trade liberalization at all, safeguards are meant essentially to tackle any possible import threat to the domestic industries on account of import liberalization commitments. Often, there is an overemphasis on either the liberalization commitments or the safeguards. It must be highlighted that to reap the full benefits of a regional integration initiative, it is imperative to balance the liberalization commitments with adequate safeguard measures. In such integration initiatives, different objectives are sought to be addressed by setting in place different safeguard measures.

Within the provisions of tariff-liberalization there are various dimensions that provide for safeguards. These include time-frame over which tariff is scheduled to be reduced/eliminated. The extent of tariff reduction/elimination also helps calibrating market opening to a trade partner. Similarly, the extent of product-coverage is yet another avenue to safeguard domestic sensitivities. Country-specific treatment in these respects too, provides flexibilities.

There are the provisions of sensitive lists to address domestic concerns depending on the developmental imperatives of different countries. Furthermore, Tariff Rate Quotas (TRQs) provide for safeguarding domestic sensitivities that are not taken care of by the above-mentioned measures.

While rules of origin check against trade deflection and play a developmental role (Das and Ratna, 2011), there are trade remedial measures that can be set in place, viz. anti-dumping duty (checking price-discrimination) and countervailing duty (tackling foreign export subsidy) for checking any unfair trade practices by a trading partner in a regional trade grouping. Over and above these, there is a provision captioned as 'Safeguards' which is aimed at checking sudden import surge of a product even if it occurs through fair trade practice.

V. Evolution of RTAs/FTAs in India

In the post-independence era, India followed a policy of import substitution and had high tariffs till 1990. India was a beneficiary to import-substitution, but the policy had its demerits too. Under the import substitution regime, our economy became a high cost, inefficient and wasteful economy where products were sold of substandard quality and were high priced. The policy resulted in creation and promotion of monopolies/ duopolies. In such a situation where Indian producers were used to the protection, immediate liberalisation would thus have unleashed a process of de-industrialization domestically. On the other hand, following a protectionist trade policy regime was also not feasible as the ill effects of avoiding import competition had already hampered the efficiency of the industry. Thus, the Indian policy makers too were faced with the dilemma of opening up or not opening up the economy. Consequently, India moved towards liberalisation and opened the economy to import competition, but liberalisation was planned in a phased manner.

Gradually, India also moved towards signing FTAs. This gradual policy shift towards RTAs/FTAs was an attempt to strike a balance between providing a level playing field to producers and infusing import competition gradually. Currently, 16 RTAs are in force, with few under negotiations. A list of operational PTAs/FTAs of India attached in the Annexure 1.

The most comprehensive FTAs of India which are signed and implemented include India-Singapore Comprehensive Economic Cooperation Agreement (CECA), India-ASEAN Trade in Goods Agreement, India-Japan Comprehensive Economic Partnership Agreement (CEPA), India-South Korea Comprehensive Economic Partnership Agreement (CEPA), India-Malaysia Comprehensive Economic Cooperation Agreement (CECA).

Against this background, we try to empirically examine India's experience with FTAs/CECAs/CEPAs briefly.

VI. India's Experience with FTAs/CECAs/CEPAs

To explore India's experience with the FTAs we review the experience of India for the five major FTAs mentioned above following an integrated approach to cover trade in goods, services and investment.

VI.1. Data

India's trade with its 5 major FTA partners in a pre-FTA and post-FTA period has been analyzed. To represent trade values of the pre-FTA period we take the year just preceding the year in which the FTA got implemented i.e.2009 as four FTAs out of the five FTAs under analysis came into effect in 2010 or 2011. Only India-Singapore CECA came into effect in 2005, for which the pre-FTA period is taken as 2004. For the post-FTA period the latest year for which the data is available is taken. The trade data has been sourced from UN-Comtrade and Department of Commerce, Government of India and Reserve Bank of India's Handbook of Statistics on India Economy and FDI data has been compiled from Reserve Bank of India's Handbook of Statistics on India Economy, Department of Industrial Promotion and Policy (DIPP), OECD database, Singapore Stats.

VI.2. Trade in Goods

We analyze India's trade with the five major FTA partners in terms of total exports, total imports, total trade and trade balance values in the post FTA period over the pre-FTA period (Table 3). Positive growth for all these parameters has been recorded in the respective post-FTA period vis-à-vis pre-FTA period as indicated in Table 3.

Table 3: India's Trade with FTA/CEPA/CECA Partners Pre-FTA and Post FTA

	Pre-FTA Figures (in US$ Mn) 2009*				Post-FTA Figures (in US$ Mn) 2018			
FTA/CECA/CEPA Partner Country	**India's Imports from**	**India's Exports to**	**India's Total Trade with**	**India's Trade Balance with**	**India's Imports from**	**India's Exports to**	**India's Total Trade with**	**India's Trade Balance with**
Japan	6385.9	3186.04	9571.94	-3199.86	10973.35	4734.22	15707.57	-6239.13
Korea Republic	7856.36	3732.14	11588.5	-4124.22	16361.77	4460.98	20822.75	-11900.79
Malaysia	4923.03	3463.78	8386.81	-1459.25	9011.58	5701.56	14713.14	-3310.02
Singapore	2457.97	3377.84	5835.81	919.87	14,803.46	9495.99	24,299.45	-5,307.47
ASEAN	25797.9	18113.7	43911.6	-7684.2	47133.7	34201.3	81335.1	-12932.4

Source: Based on data from Department of Commerce, GOI (2019)

** Except for Singapore for which the Year preceding the year in which FTA entered into force= Pre-FTA Year is 2004*

*** Except for Singapore for which the period is 2004-2018*

For the all the five FTAs under consideration, the growth of trade in 1991-2018 period is more in comparison to the pre-FTA period i.e. 1991-2009[3]. This greater growth rate in the overall period reflects the role of FTA in infusing the growth in total trade i.e. after 2010 there has been an acceleration of the growth of total trade with respect to the FTA Partners under consideration.

However, even when an increase in imports is greater than the increase in exports and thereby resulting in a greater trade deficit for India, growth in imports must not be seen in isolation. Rather, it is important to consider trade balance as a proportion of total trade in both pre-FTA and post-FTA scenario (Table 4). Though, India's trade deficit as a percentage of total trade has increased, India's total trade has also increased. This implies that the capacity to sustain trade deficit has also increased.

[3] For Singapore, it is 1991-2004.

Table 4: India's Trade Balance to Total Trade for Major FTA/CECA/CEPA Partners

	Japan	*Korea Republic*	*Malaysia*	*Singapore*	*ASEAN*
Pre-FTA Figures (%) 2009*	-33.43	-35.59	-17.40	15.76	-17.4
Post FTA Figures (%) 2018	-39.72	-57.15	-22.50	-21.84	-15.9

**Except for Singapore for which the year is 2004*
(-) Value implies India has Trade Deficit with respective Partner

From Table 3 and 4 some important observations are worth mentioning. Comparing pre- and post-FTA phases, we see that India's total trade has increased with each FTA partner in post-FTA phase. India's total trade is maximum with ASEAN at USD 81 billion and India's trade deficit is maximum with ASEAN at USD 12.9 billon. However, India's trade deficit has increased the **least** with ASEAN as compared to other FTA partners: 68 percent (over 2009-2018 period). However, trade deficit must be viewed with respect to the capacity to afford it as given by total trade as mentioned earlier. Trade deficit to total trade ratio vis-à-vis ASEAN has decreased from -17.4 percent in 2009 to -15.9 percent in 2018. This implies that for the most important trade and FTA partner both in terms of total trade and trade deficit, which is ASEAN, the capacity to afford trade deficit has increased. This is because with respect to increase in total trade between India and ASEAN in the post-FTA period as compared to the pre-FTA period, the increase in trade deficit is lower, hence the trade deficit to total trade ratio has declined. These figures may fluctuate from year-to-year depending on demand and supply gaps, but the point remains.

Trade Structure

India's exports and imports to/from the FTA partners are classified based on the stages of processing (Table 5 & Table 6). It is seen that India's exports to all these FTA partners primarily comprise non-raw material goods. Further, it is seen that major categories of imports at HS- 2-digit level include Chapter 84, 85, 72, 27 which include goods like heavy machinery and iron and steel products, which are not finished products and add to the production capacity of India. The percentage share of intermediate goods imported from all of these five FTA partners in the total imports from respective five FTA partners have recorded significant increases as indicated in Table 6.

Table 5: Export Shares based on Stages of Processing

	Capital goods		Consumer goods		Intermediate goods		Raw materials	
	Pre-FTA	2018	Pre-FTA	2018	Pre-FTA	2018	Pre-FTA	2018
ASEAN	30	14	29	36	32	29	9	22
Japan	6	12	40	30	33	38	21	20
Korea	5	9	59	22	29	62	7	7
Malaysia	43	11	20	35	25	41	13	13
Singapore	11	14	62	68	25	14	2	4

Source: Based on data from Department of Commerce, GOI (2019)

Table 6: Import Shares based on Stages of Processing

	Capital goods		Consumer goods		Intermediate goods		Raw materials	
	Pre-FTA	2018	Pre-FTA	2018	Pre-FTA	2018	Pre-FTA	2018
ASEAN	23	20	17	15	33	40	27	25

	Capital goods		Consumer goods		Intermediate goods		Raw materials	
	Pre-FTA	2018	Pre-FTA	2018	Pre-FTA	2018	Pre-FTA	2018
Japan	58	49	11	11	31	40	1	0
Korea	44	34	13	22	35	42	7	2
Malaysia	22	17	16	22	27	40	35	21
Singapore	59	37	15	13	24	44	3	6

Source: Based on data from Department of Commerce, GOI (2019)

If we look at Table 5 and Table 6 some important positive insights emerge from the structure of exports and imports vis-à-vis FTA Partners. First, India's exports are primarily accounted for by non-raw materials with respect to each FTA partner. It ranges between 78 to 96 percent. In the case of ASEAN, non- raw materials account for 78 percent of total exports to ASEAN. Second, India's imports are primarily accounted for by non-consumer goods with respect to each FTA partner. It ranges between 78 to 89 percent. In the case of ASEAN, non-consumer goods account for 84 percent of total imports from ASEAN. This can be an ideal export and import structure of India vis-à-vis FTA partners.

Box 1: Widening of India's Trade Deficit with FTA Partners: Sectoral Impacts and Insights

In order to identify the problems associated with India's FTA experience we have referred to the Department Related Parliamentary Standing Committee on Commerce, Report No. 137, 2017 focusing on India-ASEAN FTA. The Report goes into sectoral impact analysis and these have been examined objectively:

1. **Palm Oil**
   That India has a trade deficit with all the major FTA partners has been highlighted as a major problem. It has also been observed that India's trade deficit with ASEAN has widened, especially with Indonesia on account of import surge. However, the increase in imports from Indonesia is majorly accounted for by raw materials, especially, palm oil. Of this, crude palm oil is a raw material which implies there has to be some value addition to these products in India. There has been an increase in import of refined palm oil also. However, the increase cannot be said to be completely on account of India-ASEAN Trade in Goods Agreements as both crude and refined palm oil are special products in India's tariff commitments to ASEAN under India-ASEAN Trade in Goods Agreement. In addition, import of these products do have a cushioning effect on domestic inflation. It is essentially domestic short supply which has contributed to import demand.
2. **Rubber**
   The Parliamentary Standing Committee Report observed that there has been an upsurge of imports of rubber and rubber products leading to a decline in domestic rubber price on account of India-ASEAN Free Trade Agreement which is expected to have adverse consequences on rubber farmers. However, the monthly data compiled by Rubber Board of India shows how the consumption of natural and synthetic rubber in India exceeds the production in India. Further, out of the total rubber consumed, nearly 10% of natural rubber and 5% of synthetic rubber is used by automobile tyre manufacturers. Apart, from the tyre industry rubber is crucial raw material for important manufacturing sectors like plastics, automobiles etc. In this sense, imports of rubber support domestic manufacturing through forward linkages and by keeping prices low.
3. **Coffee & Tea**
   An import surge of low-priced tea and coffee on account of India-ASEAN Trade in Goods Agreement has been observed as well. However, all the coffee and tea products at HS 8-digit (falling under the HS Code 0901 & 0902 at 4-digit level of HS 2012) are under the category of Special products or Exclusion List in India's tariff commitments to ASEAN under IATIGA. Thus, the FTA cannot be blamed for the imports. On the other hand, total imports of these tea products falling under special category declined to USD 2.12 million in 2017-18 from USD 4.25 million in 2016-17. Total imports of coffee products falling under special category only marginally rose from USD 92.42 million in 2016-17 to in 2016-17 to USD 105.66 million in 2017-18.

4. **Textiles**
The problem observed in this sector was one of 'inverted duty' whereby the import duty on Viscose Staple fiber (VSF) under IATIGA has been reduced to 0% for Indonesia with effect from 1st January 2014, whereas the import duty on Wood Pulp, an input for VSF is higher (Parliamentary Standing Committee Report No. 137, 2017). However, this problem stands resolved subsequently, now that all the products of HS chapter 47: Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paper board fall under the categories of NT-1 or NT-2 i.e. categories for which tariff have already been eliminated by 2016.
5. **Rules of Origin**
The Parliamentary Standing Committee report on India-ASEAN FTA has raised the concern that the General ROO of CTSH + 35% RVC applicable to all the tariff lines is a serious constraint faced by the exporters. We also consider that this problem needs to be addressed with product-specific rules and better implementation mechanisms.
6. **Standards**
Concerns have been raised by food processing sector about the near absence of quality norms for import of processed food products from ASEAN countries resulting in import and consumption of cheap ASEAN processed food products at the cost of domestic food processing sector (ibid.). This problem also needs to be addressed as this is a major issue, by creating a comprehensive eco-system of standardization.

Source: Authors' compilation

Box 1 provides a synoptic view of sectoral impacts and insights especially with respect to India-ASEAN FTA. It is evident that most of the concerns can be viewed with a positive perspective as well. However, the concerns regarding Rules of Origin and Standards are domains where much more work is desired for.

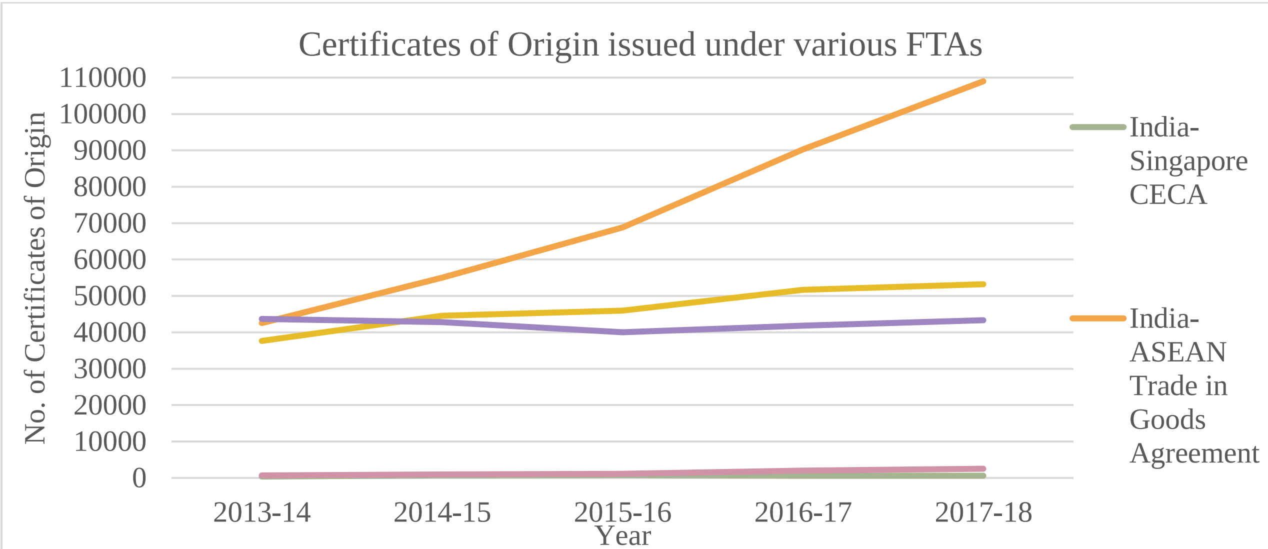
A very important dimension/effect of FTA which is often missed out from analysis, especially statistical analysis, is that while FTA negotiations are on, the news about it creates an aura about partner countries and the business opportunities therein and thereby bridging the information asymmetries between the two countries. Thus, even during the penultimate stage i.e. before signing of an FTA an upward movement begins in trade with the FTA partner countries. As more and more people get to know about the partner countries with which negotiations are being done firms and business looking for opportunities try to cash-in early to tap the untapped potential in the partner countries. With the negotiations taking place the trade and investment and business climate become favorable and businesses start taking advantages which gets further accentuated in post-FTA period. These observations are also corroborated econometrically as upon checking for occurrence of structural breaks in India's exports, imports and total trade with FTA partners using Wald Test, it is observed that structural break in India's total trade with FTA partner is seen at a point of time (year) falling between the year when the Joint Study Group or negotiations began and the year when the respective FTA was implemented.

VI.2.1 The Rising number of Certificates of Origin

There has been an increase in the number of Certificates of Origin (CoO) issued to Indian exporters over last five years for all the five FTA partners under analysis as depicted in Figure 2. Rather, the share of certificates of origin issued under these five FTAs as proportion of total number of certificates of origin issued has increased rapidly from 10.5% in 2013-14 to 27% in 2017-18 as is shown in Figure 3. While the total number of certificates of origin issued declined in 2017-18 over the previous year, the CoO issued under these five FTAs together, recorded an increase (Figure 3).

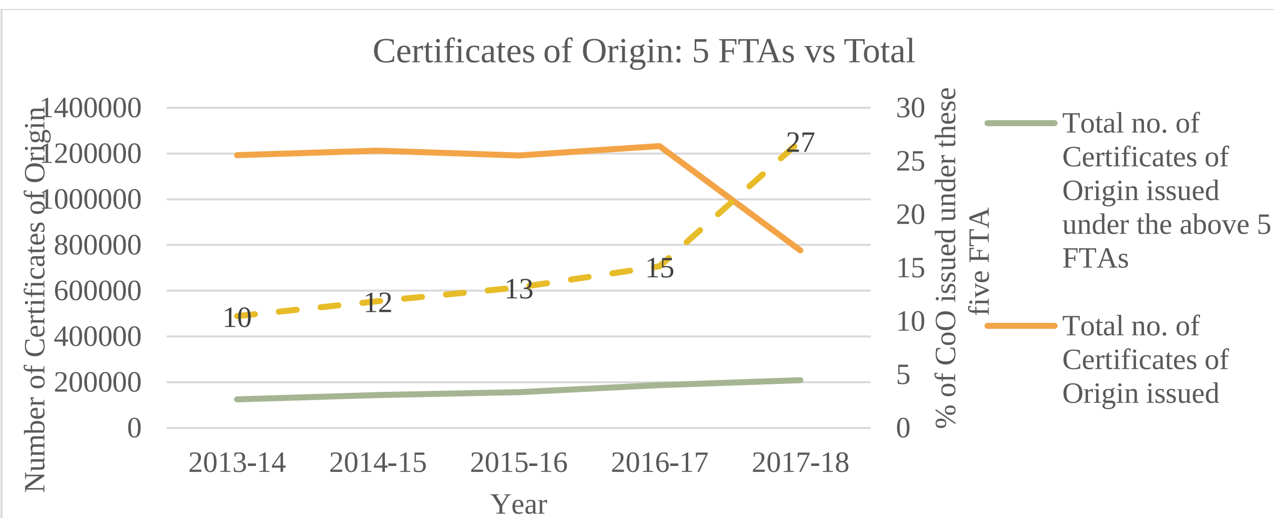
Of these too, as is evident from figure below, the most significant increase has been recorded for ASEAN which is reflective of increasing use of India-ASEAN FTA.

Figure 2: Certificates of Origin issued under various FTAs



Source: Based on data compiled from EPC

Figure 3: Certificates of Origin: 5 FTAs vs Total



Source: Based on data compiled from EPC

VI.2.2 Cost of Non -FTAs

Though there has been a rise in contrarian views with respect to the benefits of Free Trade Agreements, yet it had hitherto remained scantily analyzed that if India would not have signed these free trade agreements then what cost it would had borne.

For major FTA partners, India has witnessed a fall in the unit value of imports in the post FTA period i.e. the unit value of imports in the current year (2018 here) is much lower than the unit value of imports in the pre-FTA period (one year before the FTA was implemented). The difference in the current quantity of imports at current prices (2018) from FTA Partners and Non-FTA Partners are reflective of the trade deficit that India has been able to save in one year on account of fall in the unit value of imports arising out of signing of an FTA.

Table 7: Cost of Non-FTAs (2018)

India's FTA partners	Singapore	Korea	Malaysia	Japan	ASEAN	Total
Foreign Exchange Savings in USD Million	508	1971	19188	100	41728	**63496**
Revenue Loss (USD Million)	227	453	2458	175	8839	**12152**
Net Foreign Exchange Savings	281	1518	16730	-75	32889	**51344**

Source: Authors' Estimates

In other words, in absence of an FTA, the current quantity being imported (that too from FTA partner only) would have been sourced from the world at a higher price. The Table 7 summarizes the same for five major FTAs of India for only those products for which tariff were eliminated at entry into force of the agreements. However, this has to be seen in terms of marginal revenue loss on account of tariff reduction. It has been calculated that for five major FTAs of India, India avoided/saved trade deficit equal to USD 51.34 billion (net) in the year 2018.

VI.3. Trade in Services

Statistical Famine: The Missing Data

The services sector, even after being recognized as the biggest drivers of growth is facing a challenging statistical famine. Data measurement, collection and organisation in the services sector remains a considerable challenge. The rate of growth of services and the increased pace of transaction has enhanced the need for better and internationally comparable data for any meaningful analysis of trade in services. The data of services sector is not compiled in the form of four Modes (Mode 1 to Mode 4) used for GATS and CECA/CEPA negotiations. In addition, India's services sector data is available at highly aggregated level. Total exports and imports of services data are available year-wise and also for particular sectors. However, exports and imports of services sector-wise and country-wise are not available.

Lack of data on direction of services particularly by partner country or by company, hampers negotiations on trade in services. There is no global database capturing the 'ultimate' source or destination country effectively. It is the need of the hour to develop a better understanding of how services are traded, measured, and regulated in order to establish India as a major services exporter. This would be most helpful in taking fuller benefits of India's CECAs/CEPAs.

India's Partners Commitments under CECAs/CEPAs

Out of the five FTAs under consideration, India-ASEAN Trade in Services Agreement has not yet been ratified and implemented. However, commitments have been made in a number of new services subsectors and liberalisation have been made in the existing subsectors by Singapore, Korea, Malaysia and Japan for India under the respective bilateral agreements vis-à-vis their commitments in GATS. Under India-Korea CEPA, Mode 1 and 2 have been liberalised for a number of service subsectors and liberalisation have also been made in Mode 3 for a few service subsectors. Under India-Singapore CEPA, there has been a significant increase in the number of services sectors where Singapore has made commitments for India vis-à-vis very few sectors committed in its GATS schedule. A whole range of new services have been introduced in India-Japan CEPA too. These include subsectors of legal services, medical services, dental services, veterinary services, subsectors of telecom services, audio-visual services, franchising and transportation services, maritime services. Liberalisation in limitations on market access and national treatment have been made in certain existing sectors. Under India-Malaysia-CECA, limitations on market access via Modes 1& 3 have been liberalized for select sectors and via Mode 4 for few sectors. Limitations on national treatment have been liberalised across some sectors via Mode 1&2 and in a few subsectors via Mode 4. A range of new service subsectors which are not present in Malaysia's GATS commitments have also been included in India-Malaysia CECA. The detailed FTA Partners' Commitments in Services (GATS plus) for India are provided in the Annexure 2.

Services Trade: Some Insights

India has very forcefully articulated its concerns on Services related market access issues with its existing and future CECA/CEPA partners. Its apprehensions on these concerns getting marginalized by the partners are justified on the basis of experience of the past. In this context, few important insights need to be highlighted at this juncture. RVCs necessitate freer movement of professionals across countries in any trade agreement. This is especially crucial in a scenario when the vector of India's demographic dividend is concomitant to the vector of the "aging" population in several countries. This skill-matching needs to be focused in the realm of trade negotiations by focusing on an Agreement on Movement of Natural Persons Harnessing Regional Skill-Complementarities. This is as much true of India's existing trade partners as much with respect to those with whom India is currently negotiating trade in services agreement as part of a comprehensive economic partnership arrangement.

But we need to recognize the futility of an overbearing focus on the issue of Movement of Natural Persons. In times when even, short term movements are also under severe challenge in hitherto the most liberal jurisdictions, such an effort is possibly wasteful. Regional demography and continued focus on domestic services reforms will position India to take advantage of regional demands. Therefore, we should build an evolutionary architecture to be reviewed periodically. A good number of Indian companies are global players and many more would like to be so. Indian companies have been investing the world over, therefore an investment and establishment focused services agenda should serve India well. Similarly, Mode 2 services offered within India require greater attention in terms of regulatory, legal and human resource related domestic reforms. These include, Tourism, Healthcare, Education and Skill development. We need to, however appreciate that there is no scope for any barter between our services related demands and the goods related demands of others. Our experience of the earlier agreements shows that the committee system has not been used adequately. The objective of creating these provisions is to make available an ongoing mechanism to the participating countries for deliberating and finding solutions to market access and interpretative issues which arise from time to time (Kher, 2018 b). The issue of concluding MRAs and further not undermining them is a crucial one.

VI.4. FDI and Trade in Goods & Trade in Services

Despite tremendous data limitations with respect to FDI inflows in a matrix format of country-sector-wise time series, a summary of India's FDI inflows and outflows from/to select FTA partners is given in Table 8 sector-wise including industrial and services sectors:

Table 3: India's FDI flows with major FTA partners

Country	FDI inflow/outflow	Sectors / Companies
Japan	India's Major sectors of FDI Inflow	**Sectors:** Automobile, electrical equipment, telecommunications, chemical and pharmaceuticals, renewable energy generation, infrastructure **Companies:** Suzuki, Denso, Toshiba[4], Toyota Motor Corp., Daikin, Hitachi[5]
	India's Major sectors of FDI Outflow	**Sectors:** Automobiles, oil and gas, steel, pharmaceuticals, ICT. **Companies:** Apollo Tyres Limited, Hercules Hoists Limited, Hero MotoCorp Limited, Hindustan Copper Ltd, Indian Oil Corporation Limited, Infosys Limited, Reliance Communications Limited, Shasun Pharmaceuticals Ltd, Steel Authority of India Limited, Steel Strips Wheels Limited[6]
Malaysia	India's Major sectors of FDI Inflow	**Sectors:** Power, oil & gas (like fuels; oil refineries), telecommunication and electrical equipment industries, other infrastructure development projects (like roads and highways, telecommunications, power plants) tourism and human resources[7].
	India's Major sectors of FDI Outflow[8]	**Sectors:** textiles & textile products; chemical &chemical products; pharmaceutical products, non-metallic products, plastics, electrical & electronics industry, finance, information & technology, media advertising, education and healthcare. **Companies**: Reliance Group, RP Chemical, Biocon, Ranbaxy, JG Containers, Forte

[4] https://economictimes.indiatimes.com/news/economy/infrastructure/why-japan-is-pouring-lakhs-of-crores-in-cut-rate-loans-to-build-infrastructure-across-india/articleshow/60712934.cms
[5] https://thediplomat.com/2017/08/japan-is-building-indias-infrastructure/
[6] http://finemergia.com/list-of-indian-companies-active-in-japan
[7] https://www.enterprisetv.com.my/malaysias-investments-in-india-and-vice-versa/
[8] https://www.malaymail.com/s/1348581/najib-invites-indian-companies-to-invest-in-malaysia

Country	FDI inflow/outflow	Sectors / Companies
		International, Tamco Switchgear, ICICI Bank Limited, Tech Mahindra ICT Services, Wipro, Tata Consultancy and Crest Business Solutions, Sky Blue Media Manipal International
Korea	India's Major sectors of FDI Inflow	**Sectors:** Information technology, Electronics (including home appliances) and automobiles and construction **Companies:** Samsung, Hyundai, LG, Kia Motors
	India's Major sectors of FDI Outflow	**Sectors:** Aluminum, Automobiles, Information Technology and Banking **Companies**: Novelis, a Hindalco subsidiary, Mahindra & Mahindra Tata Motors Indian Overseas Bank, State Bank of India etc.
Singapore	India's Major sectors of FDI Inflow	**Sectors:** Financial services, telecommunications, drugs and pharmaceuticals, computer software and hardware, and trading
	India's Major sectors of FDI Outflow	**Sectors:** Information Technology, real estate, manufacturing, construction, renewable energy and pharmaceuticals.

Source: Based on DPIIT, GOI

It must be highlighted that CECA/CEPA partners' FDI inflows into India and FDI outflows of India to them are in both manufacturing and services. It would be wrong to assume that these linkages among FDI inflows/outflows in both manufacturing and services sectors would not be engendering two-way trade in goods and trade in services, inasmuch as repatriation of profits bilaterally. In addition, such interlinkages are employment generating provided the FDI is of greenfield investment type. It is a matter of further investigation.

VII. Alternative view of the Private sector

General Perception about FTAs

With the rising number of Free Trade Agreements, there have been debates with respect to the benefits of India's RTAs/FTAs. It has been argued that FTAs divert trade and hurt the domestic industry by giving an impetus to import demand and thereby displacing domestic production. It has also been argued that India has not been able to derive any net gains on account of increased market access via FTAs. Further, a lack of publicly available data on the exports and imports recorded under the preferential routes of FTAs prevents any objective assessment of the issue. However, a survey, particularly, recording the views of domestic industries of countries in Asia-Pacific Region provides some insights with respect to the benefits and use of FTAs including benefits of India's FTAs.

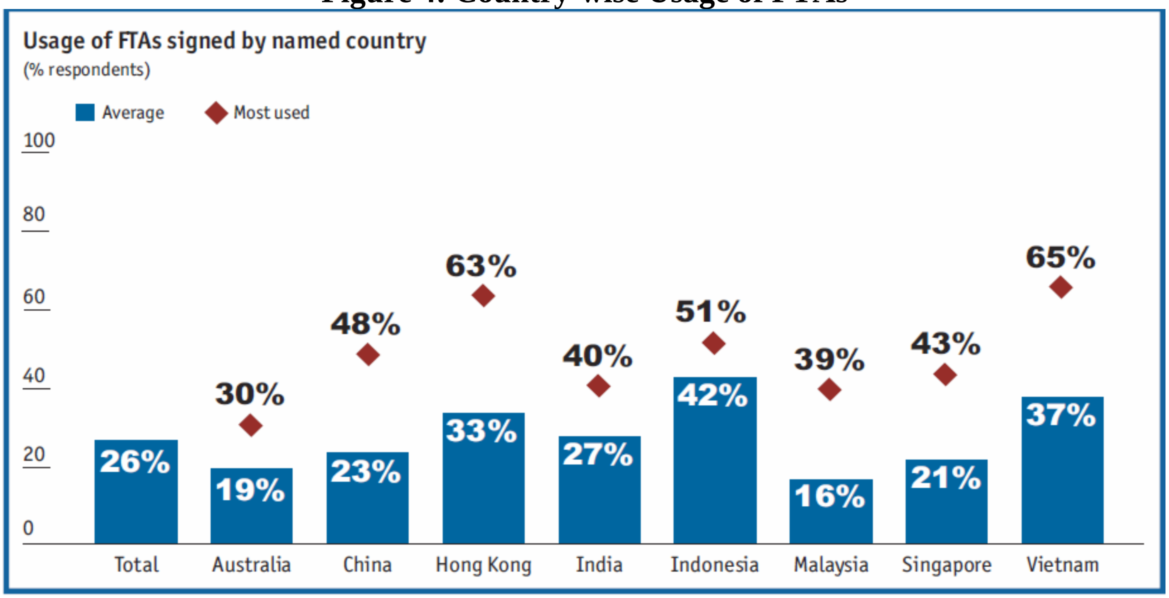
EIU Survey: Scope & Coverage

A survey conducted by The Economist Intelligence Unit analyzed corporate sector's views about FTAs across eight countries in the Asia-Pacific region, namely, Australia, China, Hong-Kong, Indonesia, India, Malaysia, Singapore and Vietnam in the first quarter of 2014. Senior executives from 800 companies in these 8 countries were interviewed. The surveyed companies were spread across sectors including IT and telecoms, consumer goods and retail, financial services, manufacturing and others (The Economist Intelligence Unit, 2014).

Insights

The survey findings concluded that Regional FTAs with neighboring countries are used more as compared to FTAs with comparatively distant and smaller economies. Though average FTA usage rates are low as per the survey, yet it was reported that the companies that do use FTA routes have witnessed increases in their exports. This is despite the fact that FTAs were expected to complicate the preferential tariff mechanism and rules and regulations of overlapping FTAs as compared to the simple WTO multilateral agreements. Out of the companies surveyed, 23% reported a significant increase in their exports, 63% reported a moderate increase in their exports, 13% reported no change and only 1% reported a decline in exports (The Economist Intelligence Unit, 2014).

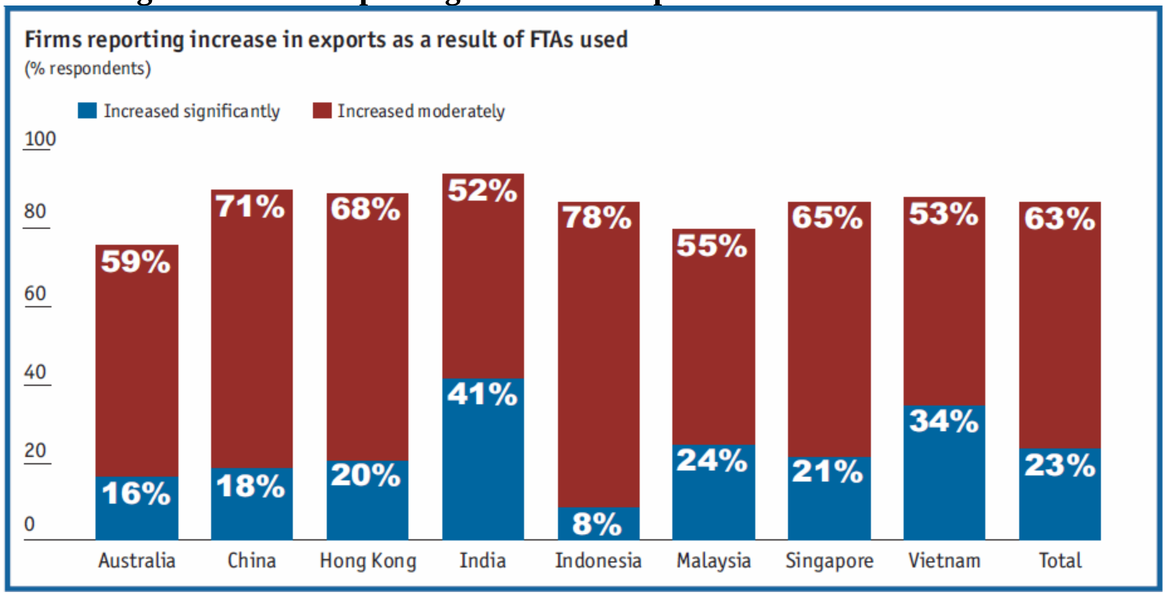
Figure 4: Country-wise Usage of FTAs



Source: Economic Intelligence Unit, 2014

Out of the **Indian companies surveyed**, 41% reported a **significant** increase in exports and 52% reported a moderate increase in exports. It was reported by the Indian firms that the trade agreements commonly used by them covered, particularly, Malaysia, Singapore, overall ASEAN region in a broader context and Japan (The Economist Intelligence Unit, 2014). However, out of the countries surveyed, India was then comparatively new to signing comprehensive FTAs and a smaller exporter vis-à-vis the other export-oriented Asian economies surveyed. Hence, a small base could have been a reason for high utilization reported by India (The Economist Intelligence Unit, 2014).

Figure 5: Firms reporting increase in exports as a result of FTAs used



Source: Economic Intelligence Unit, 2014

Nevertheless, though the high increments in the exports can be mathematically attributed to small base and the percentage increase or the extent of benefits can be predicted to normalize over the years, yet the use of preference tariff route provided by the FTAs cannot be denied on the basis of low export base. Rather, the high increments and small base effect indicate towards the low hanging potential export opportunities that can be tapped and materialized by India in the short run itself.

VIII. Conclusion

Against the background of various stylized facts characterizing FTAs, this paper has attempted to conceptualize alternative explanations behind these facts and to objectively review India's experience with FTAs, CECAs and CEPAs. The coexistence of FTAs and multilateralism can be explained through the distinct elements of liberalization offered by each of the frameworks of multilateralism and FTAs which makes both these institutions of liberalization as the first best solutions. Further, the increasing use of FTAs in India, is also explained by the three-dimensional rationale viz. economic, institutional and geo-political and the policy solution provided by FTAs to the policy dilemma of following a liberalized or protectionist trade and investment regime.

The empirical results indicate the role of FTAs in giving an impetus to trade and FDI in India. The cost of non-FTAs that India would have borne in terms of a higher trade deficit and the views of private sector with respect to increased exports under the FTAs corroborated by the increase in number of certificates of origin under these five FTAs also echo the role played by FTAs in achieving higher trade and economic integration with our FTA partners. However, it is important to acknowledge the critiques of the FTAs and address specific sectoral bottlenecks and any increase in non-essential imports by strengthening mechanisms like trade remedies and emphasizing upon greater industrial competitiveness.

IX. Way Forward and Policy Suggestions

Based on the analysis presented in this paper, some important insights emerge that could show some contours of a Way Forward in terms of a broad approach that could be adopted and some policy actions taken to help augment India's trade and economic engagements across regions. Some of these dimensions are dovetailed here.

IX.1. From Geo-Politics to Geo-Economics

Given the positive experience of India with FTAs / CECAs it is easy to decipher that in order to help create positive externalities and spill-over effects of trade to other economic domains as also to harness the potential of GVCs and RVCs, the focus of India's engagements with different countries in various regions would have to clearly focus on geo-economics and focus on geo-politics must be to an extent that the latter reinforces the developmental outcomes of FTAs/CECAs. Hence, quite evidently a perceptible shift is needed from geo-politics to geo-economics in India's international engagements.

IX.2. Understanding Economics of FTAs: Reciprocal Benefits and Employment Generation

One general insight which emerges from the paper is that the economics of FTAs/CECAs needs to be understood clearly and reciprocal benefits emanating from FTAs must be assessed in an objective manner, rather than for political objectives only one side of the story is presented. Considering that imports are only bad is a very narrow and myopic view in the context of FTAs.

Indeed, there can be some effects of FTAs that adversely affect industries. However, the baby should not be thrown with bathwater. Instead, an analysis must be made as to how to create adequate and timely social security system along with instituting re-skilling programmes in cases of labour-redundancy in a particular sector. Their cross-sectoral mobility also requires to be facilitated. Nevertheless, it is easy to argue that FTAs through their market access effects, do provide opportunities for scale expansion and hence greater demand for labour. In other words, FTAs are employment generating, an outcome which is not only not appreciated but it gets lost in the outcry of the negative effects of FTAs.

IX3. Integrated Approach under FTAs: Trade in Goods, Trade in Services, FDI, NTMs

There is an inevitable interdependence between trade in goods, trade in services and investment such that any FTA needs to recognize the two-way linkages between trade in goods and services and the trade (goods and services) and investment nexus. An integrated approach towards trade in goods, trade in services and investment is also necessitated by global and regional value chains.

IX.3.1. Approach towards Trade in Goods

Beyond Tariffs

Tariff reduction/elimination is an important part of the strategy but that alone will not be enough. A deeper understanding will involve going into subsequent layers of non-tariff policies, regulatory mechanisms and legal frameworks.

Standards and NTMs / NTBs

India must implement an extensive programme on technical regulations based on international standards. This will facilitate access to partner markets and protect domestic industry from cheap imports. A stronger framework for intellectual property law enforcement is necessary in view of its growing relevance due to the focus on technology products and the need to curb imports of cheap low-quality products. INSS (2018) provides an overarching framework and needs operationalization. For this a Nodal Point needs to be created for recommending and following up on conceptually-sound actual policy implementation with respect to the entire eco-system of standards, regulations and procedures.

IX.3.2 Approach towards Trade in Services

India has very forcefully articulated its concerns on Services related market access issues. Its apprehensions on these concerns getting marginalized by the rest of the membership are justified on the basis of experience of the past.

Beyond Mode IV

But we need to recognize the futility of an overbearing focus on the issue of Movement of Natural Persons and shift focus to other modes as well. Our experience of the earlier agreements shows that the committee system has not been used adequately. The objective of creating these provisions is to make available an ongoing mechanism to the participating countries for deliberating and finding solutions to market access and interpretative issues which arise from time to time. Therefore, a working committee system with periodic meetings is a backbone for collective resolution of disagreements. Supported by a sound dispute redressal system this will facilitate the working of the agreement.

GVCs / RVCs: Deeper FTAs

Today over 70 to 80 percent of global trade is in intermediate goods and services and capital goods, as per various estimates, highlighting the importance of GVCs and RVCs. India has not been able to hook on to regional and global value chains in a significant manner and should be looking for opportunities of locating itself on these value chains. Global value chains are the current paradigm of manufacturing and an aspirant economy cannot let an opportunity go as these arrangements normally are for long periods with lead companies preferring not to change partners over longer period. FTAs need to be geared to tap the opportunities that open up in RVCs and GVCs.

IX.4. Using Trade Remedies under FTAs: Safeguards available

Adequate efforts need to be made to make provision for and use the trade remedies (anti-dumping and countervailing duties) that are available in FTAs/CECAs. These trade remedies and safeguards, however, must be used only when there is sufficient scientifically arrived economic proofs. For this, the ongoing efforts by the DGTR must be strengthened.

IX.5. Data on Trade under FTAs: Utilization of FTAs

Given the urgent need to assess India's FTAs/PTAs/CECAs/CEPAs especially in trade in goods it is imperative to have a database on the utilization of these agreements. This assumes even more importance in the context of RCEP negotiations in order to take necessary steps towards India's preparedness both in terms of maximizing the export gains from increased market access and minimizing any adverse effects of imports.

IX.6. Better Inter-Ministerial Coordination, State-wise Outreach and Institutional Mechanism for Stakeholders' Consultation

For any FTAs to be successful in real sense, commitment and convergence, not just in the Department of Commerce but across all other departments relevant for the purpose, besides other non-government stake-holders, particularly the industry, are essential. Even the State Governments also need to be fully on board. Quantification of potential gains tends to marginalize the qualitative benefits which will flow from such a decision. For this a three-pronged strategy is needed:

(i) Constant efforts to bridge communication and information gaps needed on an inter-ministerial basis through 'Regular Briefing Sessions' rather than holding inter-ministerial meetings when a decision has to be taken. Within the ambit of 'Whole of Government Approach' different ministries must be made to feel as a part of the decision-making rather than decision-takers. This applies to every ministry in the government.

(ii) Regular interactions with the state governments is crucial so that adequate sensitization and trade facilitation takes place under cooperative federalism. For this, an institutionalized outreach process needs to be set in place with a Nodal Agency in Delhi specifically tasked to perform this function on a sustained basis.

(iii) Similarly, both the central and state governments need to institutionalize the process of Stakeholders' Consultation in Delhi and in major cities of the country. This has the advantage of getting timely feedback, including on industry-wide sensitivities, for negotiations as well as informing the industry well in time for any steps that would like to take during the period of transition with the aim of minimizing their adjustment costs. Whenever given adequate time, the Indian industry has shown considerable resilience and adjusted well during several episodes of trade integration of India with the world and regions.

(iv) Another way of looking at (ii) and (iii) is to combine the two, whereby Department of Commerce holds Stakeholders' Consultations in collaboration with the state governments. This could help reap 'economies of efforts.

IX.7. FTA Partner-Choice: Combine Small with Big

The success of a trade agreement depends on several factors; prominent among them are the criteria for selection of the trading partner and persuasive advocacy with stakeholders. Trading partners must complement each other. Rigor and strategy of selecting products and services for preferential treatment is also necessary. Manufacturing for global competitiveness is organized on the basis of capacities along the value chains, as highlighted earlier. It is important to recognize mutual competitiveness along a given value chain and to build an agreement all along the chain on the basis of respective strengths. An entire ecosystem for trading, including the tariff structure, regulatory ecosystem, logistics and trade infrastructure should be built around these value chains (Kher, 2016).

India in its pursuits of getting an integral part of global economy must combine its trade-intensification vis-à-vis traditional-developed countries like the US, Canada and the EU with those countries wherein trade linkages are still relatively low: Eurasia, including Central Asia; South Asia; Africa and Latin America with an emphasis on 'Act East Policy' focusing RCEP, the mega-grouping involving countries of East and South-east Asia & Oceania and India. The added focus must be on RVCs effected through South Asian and CLMV countries (Kher, 2018a).

The choice of trade partner for an FTA is an important aspect to be looked into. India should have a discourse on what should be the criteria for choosing an FTA partner and there should be a rigorous exercise to decide with which country should we do an FTA. In this context, two important insights that could illustrate this aspect are worth mentioning. First, one of the criteria for choosing the trade partners for doing FTA is that we can have Regional Value Chain (RVC) seeking FTAs i.e. we can have trade agreement which helps India getting into a regional value chain at particular stage of production in a particular sector or product with the help of a Trade agreement. In other words, we should select a trade partner if we can get into the RVC of that trade partner which has already evolved and we should know the stage of production in which we can get into. Second, we can have resource seeking FTAs. In the areas where India doesn't have resources, we can have trade agreements with those resource rich countries to get them at zero duty.

IX.8. Implementation of FTAs/CECAs

One of the most important steps in making FTAs/CECAs achieve their potential in terms of greater and balanced trade outcomes is by way of strengthening the policy mechanisms of implementation of FTAs/CECAs. This could include several dimensions.

IX.8.1. Work Programme of FTA Committees

FTAs and CECAs have institutional mechanism to oversee the operationalization of FTAs. These are in the form of committees that are required to review and implementation of FTAs. These are also supposed to often prepare reports to help improve implementation of FTAs. They can also recommend any improvements in the implementation process as well as consider any amendments in the agreement. They are supposed to address concerns if any of the members of the agreement. They need to coordinate the work of sub-committees on various subject matters. Experience suggests that the role of such institutional mechanisms has remined dormant. Therefore, adequate efforts geared towards making such institutional mechanisms more proactive and dynamic would go a long way in making FTAs even more effective. Such committees need to be interacting with other ministries, state governments and private sector in order to incorporate their concerns if any. The committees also need to conduct impact assessment with the help of various technical experts and professionals with legal background in order to enhance the effects of FTAs by making changes in FTAs from time to time by reflecting new realities.

IX.8.2. Implementation Issues Relating to Customs

Apart from the point mentioned above in terms of collection and dissemination of customs data for utilization of FTAs, there are some other issues that need to be focused upon. For instance, there are issues relating to access, information and interpretation of customs notification and circulars. A simplification measure that could be taken is to issue and a database of such notification and circulars under a separate head of 'FTAs'. This new category needs to be highlighted and provided a separate link on the website of CBIC. Another step could be to establish an exclusive cell in Department of Commerce which handles issues relating to proper interpretation of these notifications which brings convergence in the understanding of exporters, importers and customs officials.

IX.8.3. Improving Negotiating Capital

Since FTA negotiations are often long-drawn, it is important to find ways and means to enhance and ensure a regular battery of experts and officials who can conclude FTAs in time so that harvesting the benefits of FTAs is not postponed indefinitely.

IX.8.4. Involving Private Sector

Given that it the private sector which is in the business of utilizing FTAs, it is imperative to keep them in the negotiating loop both through domestic consultations and also with business delegations accompanying negotiators, on the side-lines.

References

Das, R. U. (2006 a). Regional Trading Arrangements of India: Conceptual and Policy Issues. Paper Presented at International Conference on "The Indian Economy in the Era of Financial Globalization", organized by University of Paris – X and Maison des Sciences de l'Homme, Paris, 28-29 September.

Das. R. U. (2009). Regional Economic Integration in South Asia: Prospects and Challenges. Discussion Paper #157, RIS.

Das, R.U. and Ratna, R.S. (2011) *Perspectives on Rules of Origin*. UK: Palgrave-Macmillan.

Das, R. U. (2013). 'Regional economic integration: New Context and Analytical Insights'. In B. Dasgupta, *External Dimensions of an Emerging Economy, India: Essays in Honour of Sunanda Sen*. UK: Routledge, Taylor & Francis Group, pp. 110-137

Das, R. U., Meenakshi Rishi, Jay Dev Dubey (2016) 'ASEAN plus six and Successful FTAs: Can India propel intra-industry trade flows?' *The Journal of Developing Areas*, Volume 50, Number 2, pp. 39-57

Department of Commerce (2018), 'Indian National Strategy for Standardization (INSS)', Ministry of Commerce and Industry, Government of India

Kher, Rajeev (2016), 'A Trade Policy Agenda for India', *Business Standard*, April 26 & 27.

Kher, Rajeev (2017), 'Towards a Zero-defect India', *Mint*, 15 March.

Kher, Rajeev (2018a), 'India's Trade Policy Must Evolve', *Business Standard*, June 27.

Kher, Rajeev (2018b), 'The Why and How of the RCEP', *RIS Policy Brief* No.84 October, New Delhi.

Kindleberger, C.P. (1966) "European integration and the intranational corporation", Columbia *Journal of World Business* (1): 65–73.

Mankiw, G. N. (2007). Elasticity and Its Applications. In G. N. Mankiw, Economics: Principles and Applications (pp. 93-112, 4th edition). South Western CENGAGE Learning.

Mankiw, G. N. (2007). 'The Theory of Consumer Choice' in G. N. Mankiw, *Economics: Principles and Applications* (pp. 384-405, 4th edition). South Western CENGAGE Learning.

Salike, N. (2010) "Effect of regional integration agreement on foreign direct investment: A theoretical perspective" Munich Personal RePEc Archive (MPRE) Paper No. 31859

Varian, H. R. (2009). 'Choice'. in H. R. Varian, *Microeconomic Analysis* (pp. 116-143, 3rd edition).

Annexure 1

List of India's FTAs and PTAs

List of Free Trade Agreements (FTAs) / Preferential Trade Agreements (PTAs) signed by India

(i) FTAs already signed and operational

S. No.	Name of the Agreement and the participating countries	Date of Signing	Date of Implementation	Details
1.	India - Bhutan Agreement on Trade, Commerce and Transit	17.01.1972 (revised on 28.07.2006)	29.07.2006	Under this Agreement, India also provides transit facilities to landlocked Bhutan to facilitate its trade with third countries. It is valid for a period of 10 years.
2.	Revised Indo-Nepal Treaty of Trade	06.12.1991 (*Revised on 27.10.2009*) (The present Treaty is valid till 26.10.2016)	27.10.2009	The Treaty aims at improving bilateral trade between the two countries by increasing the mutually agreed points of trade, expansion in the list of items included for preferential trade, simplification of trade procedures, improving Nepalese supply capacities, provision of two-level institutional mechanisms for problem resolution etc.
3.	India- Sri Lanka FTA (ISLFTA)	28.12.1998	01.03.2000	Free Trade Agreement (FTA) between India and Sri Lanka was signed on 20.12.1998 and was operationalized in March 2000 following notification of required Customs tariff concessions by Government of Sri Lanka and India. Procedure for import of certain listed items under ISLFTA is at Annexure-I
4.	Agreement on South Asian Free Trade Area (SAFTA) (India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan Maldives and Afghanistan)	04.01. 2004	01.01.2006	Afghanistan became Eighth Member of SAARC from April, 2007 and the provisions of Trade Liberalization Programme (TLP) are applicable to Afghanistan w.e.f. 07.08.2011).
5.	India - Thailand FTA - Early Harvest Scheme (EHS)	9.10.2003	01.09.2004	India and Thailand have signed protocol to implement Early Harvest Scheme under India-Thailand Free Trade Agreement on 01.09. 2004.Tariff preferences for imports on items of Early Harvest Scheme would be available only to those products, which satisfy Rules of Origin Criteria, notified by Department of Revenue, Ministry of Finance, vide notification No.101/2004-Customs dated 31.08.2004.
6.	India - Singapore Comprehensive	29.06.2005	01.08.2005	India-Singapore CECA was the first comprehensive FTA India signed with any country.

S. No.	Name of the Agreement and the participating countries	Date of Signing	Date of Implementation	Details
	Economic Cooperation Agreement (CECA)			
7.	India - South Korea Comprehensive Economic Partnership Agreement (CEPA)	07.08. 2009	01.01.2010	
8.	India – ASEAN Trade in Goods Agreement (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)	13.08.2009	1st January 2010 in respect of India and Malaysia, Singapore, Thailand. 1st June 2010 in respect of India and Vietnam. 1st September 2010 in respect of India and Myanmar. 1st October 2010 in respect of India and Indonesia. 1st November in respect of India and Brunei. 24 January 2011 in respect of India and Laos. 1st June 2011 in respect of India and the Philippines. 1st August, 2011 in respect of India and Cambodia.	
9.	India - Japan Comprehensive Economic Partnership Agreement	16.02.2011	01.08.2011	
10.	India - Malaysia Comprehensive Economic Cooperation Agreement	18.02.2011	01.07. 2011	Under the CECA, India and Malaysia have offered commitments over and above the commitments offered by them under ASEAN - India Trade in Goods Agreement. Key items on which Malaysia has offered market access to India are basmati rice, mangoes, eggs, trucks,

S. No.	Name of the Agreement and the participating countries	Date of Signing	Date of Implementation	Details
				motorcycles and cotton garments which are all items of considerable export interest to India.

(Source: Appendix -2A, of Handbook of Procedure 2015-20, Department of Commerce, Ministry of Commerce and India, Government of India)

(ii) **Preferential Trade Agreements (PTAs) already signed and operational**

S. No.	Name of the Agreement and the participating countries	Date of Signing	Date of Implementation	Details
1	Asia Pacific Trade Agreement (APTA) (Bangladesh, China, India, Lao PDR, Republic of Korea, and Sri Lanka)	July, 1975 (revised Agreement signed on 02.11.2005)	01.11.1976	APTA is a preferential trading arrangement designed to liberalise and expand trade in goods progressively in Economic and Social Commission for Asia and Pacific (ESCAP) region through liberalization of tariff and nontariff barriers. At present, Bangladesh, Sri Lanka, South Korea, India and China are exchanging tariff concessions under APTA. The 43rd Standing Session in May, 2014 saw the accession of Mongolia into APTA.
2	Global System of Trade Preferences (G S T P) (Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Chile, Colombia, Cuba, Democratic People's Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Iran, Iraq, Libya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Romania, Singapore, Sri Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, Tanzania, Venezuela, Viet Nam, Yugoslavia, Zimbabwe)	April, 1988	April,1989	Under agreement establishing GSTP, tariff concessions are exchanged among developing countries, who have signed agreement. Presently, 46 countries are members of GSTP and India has exchanged tariff concessions with 12 countries on a limited number of products. EIC is sole agency authorised to issue CoO under GSTP. The Sao Paulo Round of the GSTP was concluded among 8 countries but only Cuba, India and Malaysia have ratified the Protocol as of October, 2014.
3	India - Afghanistan	06.03.2003	May, 2003	A Preferential Trade Agreement between Transitional Islamic State of Afghanistan and Republic of India was signed on 6.3.2003 and was operationalised with issuance of Customs Notification No 76/2003 dated 13.5.2003. EIC is sole agency to issue CoO under India Afghanistan Preferential Trade Agreement.

S. No.	Name of the Agreement and the participating countries	Date of Signing	Date of Implementation	Details
4	India - MERCOSUR	25.01.2004	01.06.2009	Through this PTA, India and MERCOSUR have agreed to give tariff concessions, ranging from 10% to 100% to each other on 450 and 452 tariff lines respectively.
5	India - Chile	08.03. 2006	August, 2007	Under this PTA, India has offered tariff preferences on 202 tariff lines (as per 2007 HS) at the 8-digit level to Chile with the margin of preference (MoP) ranging from 10%- 50% and Chile has offered tariff preferences on 296 tariff lines to India at the 8-digit level with MoP ranging from 10%- 100%.
6	SAARC Preferential Trading Arrangement or SAPTA (India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives)	1993	1995	SAPTA was signed by seven SAARC members namely India, Pakistan, Nepal, Bhutan, Bangladesh, Sri Lanka and Maldives in 1993 and came into operation in 1995. Four rounds of trade negotiations have been completed and more than 3000 tariff lines are under tariff concessions among SAARC countries.

(Source: Appendix -2A, of Handbook of Procedure 2015-20, Department of Commerce, Ministry of Commerce and India, Government of India)

Annexure 2

FTA Partners' Commitments in Services (GATS plus) for India

India-Korea CEPA	**Newer areas introduced:** A number of new services sub sectors belonging Veterinary services, Research & Development, Business Services (Services incidental to manufacturing, placement and supply services of personnel, building-cleaning services), Real Estate (on contract fee basis), Courier, Telecommunication, Sound recording, higher education, Sporting and other recreational services and transportation services (rental of vessels with crew, pushing and towing services), International waters (Maintenance and repair of vessels), railways (Passenger transportation) and transportation of fuels have introduced vis-à-vis 'No Commitments' at all in the GATS schedule. Legal services have also been introduced although some sections of legal services relating to trust, property rights, inheritance are still closed. **Liberalisation of certain service areas:** • Liberalisation have been made in limitations on market access via mode 1 &2 for a number service sub-sectors belonging to research & development, renting and leasing services (relating to ships and aircrafts) other business services. • Liberalisation have been made in limitations on market access via Mode 1, 2 & 3 for distribution services (including wholesale and retail trade, commission agents' services) • Liberalisation have been made in limitations on market access via mode 3 for franchising and some financial services subsectors, railways mode 1&3 for various environmental and tourism services and some transportation services • Liberalisation have also been introduced in limitations on national treatment of certain service subsectors via mode 1 for subsectors belonging to tourism, certain air transport services from unbound to none, via mode 3 in certain freight transportation services, via Mode 4 in some financial services and service auxiliaries (namely, custom clearance services). **Some sectors have been made restrictive:** Some professional services (like Engineering services, Integrated engineering services, Urban planning and landscape architectural services, relating to other transport equipment, relating to other machinery and equipment, advertising services, some audio-visual services and distribution services, some subsectors of environmental services and other auxiliary services have been made restrictive by imposing an additional requirement of local presence for services trade through Mode 1(limitations on market access), for some financial services through Mode 3 (limitations of market access). Limitations on national treatment have been imposed for subsectors, freight transport agency services (maritime cargoes) through Mode 1. Limitations on national treatment have been changed to 'unbound' from 'none' in GATS. Services trade through Mode 2 and 3 have been made restrictive for some insurance services and through Mode 3 for some publishing and printing service.
India-Singapore CECA	**Newer Areas Introduced:** There has been a significant increase in the number of service sectors in India-Singapore CECA vis-à-vis Singapore's commitments in GATS. Many service subsectors belonging to professional services (like Financial Auditing Services, Other tax-related services, Integrated engineering services, Urban planning services, landscape, architectural services, services provided by midwives, nurses, physiotherapists and para-medical personnel) Software implementation services, Research and Development Services, Real Estate Services (Other business services (like Advertising services, management consulting services etc.), Construction services, Distribution services (like retail trade wholesale trade, wholesale commission agents' services, franchising services, environmental services, recreation services, transportation services (international water, air, railways, road, pipeline for transportation of fuels) and other services like washing, cleaning and dyeing ; services, hairdressing and other beauty services, funeral cremation services etc.) **Liberalisation of certain service areas:** • Limitations on market access via Mode 1 have been liberalised for Accounting, auditing and bookkeeping services Taxation services, medical services, hotel and lodging services.

	• Limitations on market access via Mode 1 have been liberalised for Accounting, auditing and book keeping services, Taxation Services, Architectural services, Engineering services, Some subsectors of insurance and financial services, Travel agencies and tour operator's services, Tourist guides services • Limitations on National Treatment via Mode 1 & 3 have been liberalised for Tourism services. • Limitations on National Treatment via Mode 3 have been liberalised for Basic Telecommunication Services (facilities-based), Mobile Services, Financial services, Financial services (Settlement and clearing services for financial assets, incl. securities derivative products, and other negotiable instruments) Travel agencies and tour operator's services, Tourist guides services. • Limitations on National Treatment via Mode 4 have been liberalised for Basic Telecommunication Services (facilities-based), Mobile Services, Financial services. **Some sectors made restrictive:** Limitations on market access and limitations on national treatment have been made restrictive via Mode 1 and 3 for accessing Hotels and Catering Services (Meal serving services in eating facilities run by the government, Beverage serving services for consumption on the premises) and Recreational Services (Museum services including preservation services of historical sites and buildings, some other cultural services)
India-Malaysia CECA	**Newer areas introduced** A whole range of new services subsectors have been introduced. These include veterinary services, a part of architectural services relating to urban planning, data processing services, research & development, renting and leasing services relating to machinery and equipment, a number of business services (management consulting services, technical implication services, photographic services, regional distribution centre ("RDC"), international procurement centre ("IPC") ,translation and interpretation services, collection agency services, duplicating services, specialty design services), telecommunication services (telegraph, paging, electronic mail, voice mail, on-line information and data base retrieval, electronic data interchange (EDI), enhanced/value-added facsimile services, incl. store and forward, store and retrieve, mobile telephone service, mobile data services, renting services related to equipment for construction or demolition of buildings or civil engineering works, with operator), Distribution services (wholesale trade and commission agents' services), higher education services, some services subsectors belonging to construction, environmental, tourism, transportation (freight transportation for international waters and road, rental cargoes, maintenance and repair of railways) and storage and warehousing services. Of these services like distribution services, transportation, particularly freight transportation, and storage and warehousing have a potential of giving an impetus to trade in goods. **Liberalisation of certain service areas** • Limitations on market access via mode 1 have been liberalised for advertising services, Motion picture and video tape production and distribution services, General construction work for buildings, general construction work for civil engineering, Installation and assembly work, building completion and finishing work, Hotels and restaurants (incl. catering), Entertainment services (including theatre, live bands and circus services). • Limitations on market access via mode 3 have been liberalised for Computer related services (limitations on market access-None), renting and leasing services relating to ships, technical testing and analysis services, research and development services (equity cap increased), telecommunication services (equity cap increased), some construction service subsectors, some transportation, tourism and recreational services. • For Sporting and other recreational services liberalisation has been made in Mode1,3, & 4 whereby limitations on market access have been made are 'none'. Similarly, for Operational Headquarters (OHQ) services limitations on market access have been liberalised under all the four modes. • Limitations on market access via mode 4 have been liberalised for Accounting Services, integrated engineering services, some subsectors of consultancy services and subsectors of computer related services.

	• Limitations on National Treatment via Mode 1&2 have been liberalised for Accounting, auditing and bookkeeping services, Taxation Services, Architectural services, Engineering services, Integrated engineering services, Operational Headquarters (OHQ) Services, Travel agencies and tour operator's services. • Limitations on National Treatment via Mode 4 have been liberalised for Architectural services, Engineering services and some subsectors of telecom services (Voice telephone services, Packet-switched data transmission services, Circuit-switched data transmission services, Telex services, Facsimile services, Private leased circuit services, Voice telephone service)
India-Japan CEPA	**New Areas Introduced:** A whole range of new services have been introduced. These include subsectors of legal services, Medical and dental services, Veterinary services, Services provided by midwives, nurses, physiotherapists and para-medical personnel, Services provided by physiotherapists qualified as "Rigaku-ryohoushi", or by dietitians qualified as "Eiyoushi", under Japanese law", subsectors of research & development services, rental and leasing services relating to ships and aircrafts, technical testing and analysis services, services incidental to mining, investigation and security services, credit reporting services, collection agency service, subsectors of telecom services, audio-visual services, franchising and transportation services, maritime services. **Liberalisation of certain service areas:** • Liberalizations have been made in limitations on market access via all four modes in Legal services, taxation Services, higher education services, passenger transportation, freight transportation • Liberalizations have been made in limitations on market access via Mode 1 in some construction services subsectors, and refuse disposal services (environmental services) • Liberalizations have been made in limitations on market access via Mode 3 in certain services subsectors of legal services, taxation services, construction services, higher education, refuse disposal services where the limitations have changed to 'None'. Also, in a number subsector belonging to financial services, limitations have been changed to 'None'. • Further in a number of service subsectors of telecommunication services (Voice telephone services, Packet-switched data transmission services, Circuit-switched data transmission services, Telex services, Telegraph services, Facsimile services, Private leased circuit services, Electronic mail, Voice mail, On-line information and data base retrieval, electronic data interchange (EDI)) equity caps have been increased. • Significant liberalisation has been made on limitations on Market access via mode 4. A whole range of services have fully liberalized. These include subsectors of legal services, Accounting, auditing and bookkeeping services, Engineering services, architectural services, Computer related services, R& D services, renting & leasing services, business services (Advertising services, Market research and public opinion polling services, Management consulting service, services related management consultancy etc., Building-cleaning services, Photographic services, Packaging services, Printing, publishing, Convention services, Translation and interpretation services, Specialty design services), Telecommunication services (Packet-switched data transmission services, Circuit-switched data transmission services, Telex services, Telegraph services, Facsimile services, Private leased circuit services, Electronic mail, Voice mail, On-line information and data base retrieval, electronic data interchange (EDI), code and protocol conversion, on-line information and/or data processing) Audi-visual services (Motion picture and video tape production and distribution services, Motion picture projection service, Sound recording) distribution services, education services, environmental services, tourism (Hotels and restaurants, Catering Services, Travel agencies and tour operators services, Tourist guides services) , recreational and transportation services. • Also, partial liberalisation has been made in limitations on market access via Mode 4 in a few service subsectors belonging to legal services and construction services. • Limitations on National treatment via Mode 1 have been liberalized for subsectors of construction services, Convention services, Motion picture projection service, Higher education services, Refuse disposal services, Sanitation and similar services, Other

	Hotels and restaurants (incl. catering), Tourist guides services, Passenger transportation, Freight transportation • Limitations on National treatment via Mode 2 have been liberalized for Legal advisory services, Higher education services, Passenger transportation, Freight transportation • Limitations on National treatment via Mode 3 and Mode 4 have been liberalized for have been liberalized for mode 4 for majority of the service subsectors which have been fully liberalized in terms of limitations on market access.