Mega FTAs and Its Impact on Indian Economy

KNOWLEDGE PARTNERSHIP PROGRAMME

Noting that the international trade landscape is set to change the way in which trade will be conducted due to mega regionals such as the Trans Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP), it becomes imperative to assess their impacts on the Indian economy and advocate a strategy that India would need to follow in the near future to remain relevant in the changing global trade architecture.

Background

One of the most striking developments in the world trading system is a surge in Free Trade Agreements (FTAs). From about 50 in 1990, the number of FTAs notified to the World Trade Organization (WTO) had crossed 612 by April 2015. FTAs bring multiple benefits to members with respect to increase in productivity, exports, employment, quality of products, integration into regional and global value chains and higher economic growth.

Three FTAs namely TPP (trade agreement among 12 Pacific Rim countries signed on October 5th 2015), TTIP (proposed free trade agreement being negotiated between the European Union and the United States) and European Union (EU) - Association of South East Asian Nations (ASEAN) FTA will have profound impact on excluded developing countries like India as these agreements have complicated provisions related to higher standards, Intellectual Property Rights (IPRs), environmental protection, labour standards, State Owned Enterprises (SOEs); and Investment issues. Together these three mega FTAs account for more than 40 percent of both India's Exports and Imports. Therefore, if these FTAs come into effect, it is expected that there will be a considerable impact on rules affecting world trade especially the rules set by the World Trade Organization (WTO) and excluded members.

This brief provides an ex ante analysis of the implication of mega FTAs for India and recommends trade policy measures which could be replicated by other developing and low income countries as well to help them deal better with the adverse impact of the mega FTAs.

Initiative & Study Purpose

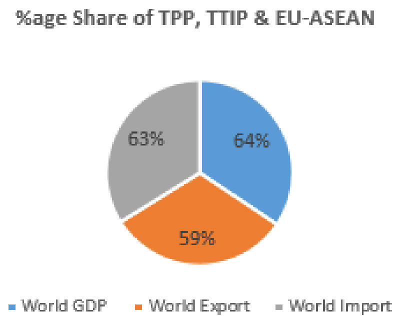
The Government of UK's Department for International Development (DFID) supported study under the Knowledge Partnership Programme (KPP) aims to support initiatives for India's cooperation with other developing countries and contribute to upgrading their capacities for mitigating negative spill over effects of mega FTAs. The study indicates:

- The upcoming mega FTAs namely: TPP (already signed), TTIP and the EU-ASEAN free trade agreement will have significant spillovers on excluded members.
- Impact of mega FTAs on India's trade flows, domestic output, returns to factors, aggregate welfare, inequality and poverty levels are rather small but could become a cause of concern once the mega FTAs get implemented fully.
- Domestic reforms undertaken to adapt to higher standards, IPR, and trade facilitation norms could lead to better market access in FTAs. In addition, exploring alternative markets for exports, FTAs with other countries, working with mega-regional partners (bilateral) and cooperation at multilateral level is vital for minimizing the spill over impact.

The brief is drawn largely from the study report 'Regional Trade Agreements and the Indian Economy: An Analysis of Potential Challenges and Opportunities' by CUTS International under the KPP supported by DFID and the full report can be accessed at- http://ipekpp.com/admin/upload_files/Report_3_21_Mega_2317074483.pdf.

Scope of Mega FTAs

TPP, TTIP, and EU-ASEAN put together have around 46 members with percentage shares as follows:



With respect to India, TTIP comprises of 29.6 per cent of India's trade. The TTIP agreement intends elimination or reduction of conventional barriers to trade in goods and elimination, reduction, or prevention of barriers to trade in goods, services, and investment.

The simulation results suggest that there will be trade diversion impact and reduction in overall welfare for Indian economy and India needs multiple policies to counter these negative impacts. The Indian experiences could be quite helpful for other developing countries and also low income countries excluded from the mega FTAs.

Impacts of the Mega FTAs on India

The impact on the Indian economy is assessed using the Global Trade Analysis Project (GTAP) model developed at the World Bank. The simulation results show that each of the mega FTAs cause considerable global trade diversion. However, as mentioned above, the impact on India's trade flows, domestic output, returns to factors, aggregate welfare, inequality and poverty levels are rather small and could be managed with diversification of India's export basket to new markets.

Impact of TPP: Maximum welfare loss of around $322 million or (0.025% of the GDP).

Impact of TTIP: Maximum welfare loss of around $438 million or (0.03 % of the GDP).

Impact of EU-ASEAN: Welfare loss of around $336 million or (0.025% of the GDP)

When all the three FTAs would be in force, the aggregate welfare would be lower by US $ 757 million or just about 0.06 per cent of GDP. In contrast to the FTA scenarios, under the multilateral scenario welfare gain is higher than base by over US$ 21 billion or 1.7 per cent of the GDP. These results suggest that the country should continue advocating for trade rules to be discussed in a multilateral platform.

Impact Assessment based on Survey

The perception survey of key informants and stakeholders indicate that small traders and other relevant stakeholders have very low knowledge about the mega FTAs. However, the policymakers, government officials, researchers and trade bodies have good knowledge about these mega FTAs and also are aware about the potential repercussions of these mega regional trading arrangements.

More importantly, many traders have pointed out that the tax system in India is very complex and there are multiple duties levied on exported goods and this has affected their export competitiveness. Furthermore, trade–related infrastructure is weak in the country, causing unnecessary delays to many businesses.

Government officials, trade bodies, and policymakers also stated that there are a large number of non-tariff barriers which Indian products will face from TPP and TTIP countries. Higher regulatory standards negotiated under these mega FTAs will act as barrier to India's exports.

The Way Forward

As stated, India has multiple unilateral (domestic), bilateral and multi-lateral options to counter the challenges posed by mega FTAs. Other developing countries could also draw useful lessons from India's preparedness and undertake counter measures to mitigate or reduce the adverse impact of mega FTAs. Based on the situation presented for India, It is likely that other developing and least developed countries, such as those in Africa and Asia, will experience greater trade diversion and welfare loss than India. It can be generally emphasized that other developing countries will need a balanced approach between opening their markets through targeted trade liberalization and supporting domestic industries through policy reforms, differential treatment, and new trade agreements.

Further References

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KPP is a South-South cooperation programme promoting knowledge sharing in the areas of Food Security, Resource Scarcity and Climate Change; Health and Disease Control; Trade and Investment; and Women and Girls. KPP is funded by the Government of UK's Department for International Development (DFID) and managed by a consortium led by IPE Global Private Limited under its Knowledge Initiative. The main objective of KPP is 'Gathering and uptake of evidence on issues central to India's national development that have potential for replication in developing countries and impact on global poverty'.

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