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Roundtable on
"Mega FTAs: Impact for global trade with special focus on India"

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WWF Auditorium, 172-B, Lodhi Estate, New Delhi-110003

Background

- Trade negotiations in the last few years have followed a peculiar trend. Countries have failed to move the Doha Development Agenda of the World Trade Organization (WTO) forward in a satisfactory fashion but have agreed to expand negotiations for creating large free trade areas, which are termed as mega trade agreements. Three such agreements are currently under negotiations – the Trans Pacific Partnership (TPP), the Trans-Atlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP). These negotiations have a strong impact for India both from a geo-political point of view as also from a trade and investment point of view.

- These Mega FTAs are not just negotiating the end of tariffs but are also looking to harmonize among participants' investment regimes, standards and customs procedures. They are expected to benefit countries by increasing trade by billions of dollars. The estimate of trade growth among participating countries for the TPP is said to be in the range of $ 300 billion of which the US is expected to gain $ 77 billion while Japan will gain $ 115 billion.

- Strategic bilateral and quadrilateral agreements are putting pressure on mega FTAs negotiations--China-Japan-South Korea FTA, China-Australia FTA, East African Community are few of the examples. Of the three large mega trade agreements being negotiated, India is party only to RCEP. India-Australia and India-Canada FTA are expected to be completed soon, while India-EU FTA negotiations have been stalled for a while.

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Concerns for India

- There is a sense that the Indian industry has not benefited as much as it should have from the existing FTAs we have. Over the years, India has signed many FTAs and RTAs, starting with the FTA with Sri Lanka in 1998 (which became operational in 2000), followed by CECA with Singapore, Thailand, Japan, ROK and CEPA with Malaysia and others. None of these helped India in expanding her exports to these markets. In fact, the trade deficit with these countries has grown after signing these agreements. Is this because the government and industry were not at the same page on interests at the time of negotiations?

- Indian industry seems to be not ready for globalisation. The attitude of Indian industry seems to be very defensive. The responsibility to change this perception lies both with the government and the industry.

- India faces a growing trade deficit with her FTA partners, which raises several questions:
  a) Was the industry not consulted before the deals were finalised?
  b) Is the industry not aware of its own strengths?
  c) Considering the WTO+ approach being followed in TPP, especially in the case of IPRs, what should be our strategy? Should we put pressure on industry to improve by signing FTAs and letting them face the heat, or should we continue to protect them?

- Utilization of the agreements by companies remain low, except in some sectors like steel. The existing tariff profile ensures that imports surge with FTAs, not exports. India primarily signed the FTAs for geopolitical and not economic reasons. It is also worth considering whether imports' surging over exports is in fact a losing proposition for India. It is a failure of the industry, not the consumers and the politicians.

- Chinese and Indian market presence is increasing the world over, but India is losing out to China especially in important sectors like textiles. A question that lingers is what will happen to SMEs when foreign investment comes in?

- Adopting non-tariff barriers is an issue that needs to be mulled over and addressed. India's record in adopting Non-Tariff Measures is abysmally poor. It is not that the industry is not capable of producing superior quality products and services. The problem is that the systems and procedures are grossly inadequate. For example, the Bureau of Indian Standards is understaffed and reluctant on adoption of Non-Tariff Measures proposed by the industry. A revision of standards by BIS is a long-drawn process and there is no regularity in meetings of the standards review committees.

What Industry can do?

- At its own level, the industry needs to look at measures for trade facilitation and increasing standards. In the case of Japan and South Korea, the experience reveals the significance of culture for the economy. Certain cultural aspects go beyond tariff lines.

- Industry needs to focus on competitiveness. It is an industry-function to improve standards. Industry must get into the global supply chain, company by company. They should create their own data and get information by their own initiative. Investment in research is a necessity to get the strategy right. Industry should go to South block armed with data to make their case. A more proactive approach is needed from the industry. The government and the industry will have to communicate better to align Indian foreign and trade policy goals.

- The government's approach towards bilateral agreements will always be ad-hoc, timed to complement foreign policy commitments. Bilateral agreements are thus a function of bilateral visits. The industry should get ahead of the curve and be prepared. Creating avenues for information is vital. India must keep a watch on the various mega regionals being negotiated as they will shape the global dialogue on standards. Within its limitations, India must try to influence the agenda.

- Industry should invest overseas. Barriers are going to come down as a result of these agreements. This way we can cushion ourselves from effects of TPP. To survive the changes underway, Indian industry needs to muster a global presence. It would be helpful to negotiate FTAs with countries with which there is potential to export and that have high tariffs.

- Industry must come to terms with the fact that when we open up to countries higher than us on the competitiveness index, we will also have to work harder and meet targets, deadlines, expectations and standards. Hence, an in-house trade policy capability building is needed. We will not get domestic reform as the energy for domestic reform has dissipated.

Key Recommendations

- **Adopt modulated tariff models**: EU's agricultural policy follows modulated tariff structures, which promotes industrialization. For political reasons, India has refrained from adopting such measures till now. However, if India follows Europe's example, it will not only promote the industry but also comply with existing WTO agreements.

- **Implementing domestic reform**: The much needed regime shift would come about by implementing domestic reform, including a relook at subsidies and restructuring them towards more investments. The industry also needs to improve competitiveness and meet higher standards. India's participation in global value chains depends on these measures.

- **Addressing issue of non-tariff barriers**: Industry has missed out on addressing non-tariff barriers. Each sector will have to look into it. Sanitary and Phytosanitary (SPS) issues are taking a front seat in negotiations on agricultural and food products. India should bring SPS issues within the framework of FTA.

- **Initiate a Comprehensive Study to assess the FTAs**: Indian industry and government should consider undertaking a comprehensive study to assess how these FTAs have performed and where we have benefited and in which areas we have not been able to gain advantage. No study of this nature has been conducted so far, and it is high time that such an exercise is undertaken. The areas of focus could be:
  a) Utilisation of India's FTAs by looking at both import and export sides
  b) India's FTAs and trade deficits by working out both price and income elasticity of our imports from and exports to those countries, and
  c) How the relationship between trade and exchange rates is affecting India's trade.

- **Expand Indian cadre of international trade negotiators**: India needs to significantly enhance the strength of its international trade negotiators, who are working on these issues at global fora. This will enable India to take advantage of emerging opportunities and protect against risks.

- **Active involvement of all constituent groups in Trade Negotiations**: Industry, associations, policymakers, agriculture groups and other relevant stakeholders should be actively involved in all negotiations dealing with FTAs, RTAs etc. These constituencies need to drive the change towards economic development and growth of the country rather than merely coping with the FTAs handed to them by the Government.

- **Develop a resource base of trained trade specialists**: India needs to develop a cadre of international trade specialists who have a good understanding of WTO issues, RTAs, Doha Round etc. The government should introduce detailed study of these subjects in Colleges, Universities, IIMs, IITs etc. so that ready expertise is available whenever required.

- **Active government engagement with stakeholders**: The Government should keep channels of communication open with all stakeholders—industry, parliament, state governments, civil society, academia, industry associations, media etc—through regular and frequent briefings. If no information is provided during the course of negotiations, these constituencies would start speculating and fearing the worst. If they are kept on board, changes that might be required to be made in domestic legislation and implementation of new provisions will be comparatively smooth. However, appropriate confidentiality should be maintained.

- **Ensure availability of reliable data on the industry**: Industry associations should collate accurate data relating to industry capacity, demand & production, import and export, sectoral projections etc. This is imperative because currently, when it comes to import and export data, there is no reliable and authentic source available. Simplification of documentation by digitizing data is recommended to enable industry to move from managing-data to managing-business.

- **Reporting and checking mis-declaration of goods**: Mis-declaration by importers is done to avail duty concessions under different FTAs, a problem that has been repeatedly highlighted by the domestic manufacturing industry to the concerned departments and enforcing authorities. Mis-declaration also causes losses to the exchequer by way of loss of revenue. It is therefore suggested that the government and industry associations red flag this as an area of concern and take steps to check anomalies.

- **Linking foreign policy with domestic and trade policy**: FTAs need to be with countries to whom industry can export and those who have high trade tariffs. This is possible when the foreign policy commitments are in sync with the domestic issues at home and industry needs. Efforts must be to create structures where investments become attractive.

- **Review duty concessions**: Any product that has attracted anti-dumping or safeguard duty should not be eligible for any duty concessions in any FTA negotiations. These trade remedial measures are resorted to whenever there is dumping of goods into the country that causes injury to the domestic industry. Duty concessions will only aggravate the problems and derail the Indian government's "Make in India" programme.

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