

PTAs and India: Where are we and where to go?

29 January 2008, Conference Room II, India International Centre, New Delhi

Objective

To take stock of the progress in Preferential Trade Agreements (PTAs), both bilateral and regional, signed so far and likely to be sign in near future by India and to assess the likely effects of such arrangements and also those by other countries than India on the domestic economy with specific objectives to look into:

- The role of PTAs in promoting trade: political economy of PTAs;
- The impact of proliferation of PTAs on world trade: multilateralising regionalism;
- The structure of PTAs: shallow vis-à-vis deep integration processes;
- India's approach towards PTAs: political and economic aspects; and
- Possible impact of other PTAs (than those with which India is engaged) on India.

Background

In the recent past, PTAs (both bilateral and plurilateral) have mushroomed in every region of the world. Currently, there are over 400 PTAs. Several factors contributed to the recent proliferation of PTAs (often paraphrased as “new regionalism”), which denotes a departure from multilateralism, and might have grown out of a sense of frustration of some countries due to slow progress in multilateral trade negotiations. It seems that a number of such arrangements could serve as a better vehicle for advancing their preferred agenda of economic liberalisation and harmonisation across a broad range of policies, laws and institutions aimed at promoting trade and investment. It reflects a tendency to perceive globalisation as a process whereby access to international market and attracting foreign direct investment in a selective manner is a key to successful integration with the world economy.

Until the early part of this decade, India did not engage in a large number of PTAs except that at a regional (South Asian). India is and will remain an ardent supporter of multilateralism. However, on realizing that regionalism beyond immediate neighbours is becoming a major tool for enhancing international trade and for FDI (in both ways), since the Cancun Ministerial Conference of the WTO Members India is getting increasingly engaged with PTAs.

Context

India's policy to engage with a number of PTAs is in line with its broad objective to “double percentage share of global merchandise trade within the next five years” (Foreign Trade Policy 2004-09). It has so far signed free trade agreements with 6 countries (Bhutan, Nepal, Sri Lanka, Thailand, Afghanistan, and Singapore) and 3 regional associations, viz., BIMSTEC, SAFTA and MERCOSUR (the Southern Cone in South America) and several such agreements, bilateral and regional, are under various stages of progress. It is, however, interesting to note why India is having separate PTAs with countries such as Sri Lanka when both are engaged in regional integration through SAFTA, with Thailand when both are a part of BIMSTEC. India is negotiating a PTA with the ASEAN bloc while having a Comprehensive Economic Cooperation Agreement with Singapore. Perhaps this is because none of these regional groups is a customs union like the European Union, the Southern African Customs Union (with which India is negotiating a PTA).

Though not enough data on the performance of these PTAs are available as most of them have been operationalised very recently, some econometric studies using gravity and CGE (computable general equilibrium) modeling produce inconclusive evidences regarding the benefits of such arrangements for India.

Various commentators have stated that lack of domestic preparedness on the part of various stakeholders is coming in the way to fulfill the stated objectives of PTAs. Issues relating to rules of origin and items to be included in negative list have been/are posing problems for existing and ensuing PTAs. Such problems get compounded in multiple-membership PTAs.

Issues for Discussion

Given the Background and Context, the following issues need urgent attention:

- Before any attempt is made to negotiate any PTA a rigorous empirical study (*ex-ante* analysis) needs to be undertaken to identify benefits and costs, not only in quantitative terms but qualitatively as well to build up strong logical arguments to support/reject any potential PTAs. And there should be regular *ex-post* impact analysis of PTAs.
- Being a large multi-party democratic country, popular political support and resolution of stakeholders' concerns are required. Consensus and Confidence Building Measures (CCBM) among different stakeholders are a must for any PTA to succeed. Efforts are needed to clear the prevailing thick air of suspicion and fear and political opposition, which are founded in many cases due to lack of holistic understanding and inadequate research leading to proliferation of popular sentiments exploited by vested interests.
- Why most of the PTAs that India is engaging with are on goods whereas India's comparative advantage with many of its partners is on services and also that there is huge scope for Indian companies to directly invest in these countries? This is especially important because India considers the Comprehensive Economic Cooperation Agreement with Singapore as a success story, and services and investment are part of this Agreement. This leads to the debate: on what basis India should engage in shallow integration with a country and what would be the basis for deep integration.
- Research on implications of similar PTAs being entered into by other countries on the Indian economy (including in respect of FDI from India) is to be done regularly.
- How best we can use the existing negotiating capital of India? Should there be a separate Department for International Trade and Trade Negotiations within the Ministry of Commerce and Industry, Government of India to deal with multilateral trade negotiations and PTAs?

Format

A high-level panel of experts will discuss the above-mentioned issues on India's increasing engagement with PTAs. It will be a half-day event – 9.30AM to 1.30PM, followed by lunch.

Participants

Besides government officials and academic experts, representatives from business, civil society, international institutions, foreign missions and media will be invited to take part in this deliberation.

Expected Outcome

The event will take stock of political and economic relevance of India's increasing engagement with PTAs and will help CUTS in developing a comprehensive work programme on political economy and empirical research on PTAs and India.

For further information, please contact:

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