

External Preferential Trade Agreements and The Indian Economy

An Analysis of Impacts and Counter Measures

Background

Deepening of plurilateral commercial relations elsewhere in the world is set to affect emerging countries like India in many ways, especially when they are excluded from preferential trading arrangements (PTAs) between countries that have been their important trading partners.

An ex ante analysis of implications of negotiations under the proposed TTP, TTIP and EU-ASEAN Agreements for the Indian economy is very important.

Three of the main such upcoming external PTAs from India's perspective are the Trans-Pacific Partnership agreement (TPP), the Trans-Atlantic Trade and Investment Partnership (TTIP)

agreement and the EU-ASEAN free trade agreement (FTA). Together the negotiating countries under these agreements account for well more than 40 percent of both India's exports and imports.

Given that India's trade dependency on countries and regions belonging to these three large external PTAs is very high, possibility of diversion of trade and economic activities from India to trading partners within these PTAs as a result of deepening preferential arrangements between them is going to have very serious implications for the Indian economy. The negative impact of such diversion would be of high intensity.

This emerging scenario necessitates a through *ex ante* analysis of implications for the Indian economy as a result of these agreements and arrive at policy directions that would help India to mitigate and adapt to substantial changes that are underway in its external economic environment.

This project undertakes such an *ex ante* analysis and use the results to advocate for appropriate mitigative and adaptive trade policy approaches. It would extensively undertake both qualitative and quantitative assessments of impacts of the aforementioned external PTAs on the Indian economy by extending the existing models of analysis of diversion of trade and allied international economic transactions.

The project will have specific focus on impact of trade and investment on India's poor, identify the potentially affected sectors that are most sensitive to poverty and design appropriate safety-nets for safeguarding the interest of such vulnerable sectors.

The project will be undertaken over a period of 18 months, from November 2013 to April 2015. It will have a research as well an advocacy component with equal thrust on both.

The overall aim of the project is to generate research results on the impacts of the three selected external PTAs on the Indian economy and use the same for informed trade policy decisions.

Goal & Objectives

The overall aim of the project is to generate research results on the impacts of three selected external trade agreements on the Indian economy and use the same for informed policy decisions so that India becomes better prepared for facing the challenges of exogenous trade shocks.

Specific objectives are to:

- conduct extensive sectoral analysis of diversion of trade (goods

and services, exports and imports) and allied economic transactions (trade-related investments) from India *vis-a-vis* the participating countries in the EU-ASEAN FTA, TPP, and TTIP agreements;

- analyse the impact of these PTAs on labour intensive and small scale sectors and to frame policy responses to prevent negative impacts on poverty reduction; and

CUTS will undertake an extensive diagnostic assessment and impact assessment of the effects of the selected external PTAs, and conduct awareness generation and policy advocacy among key stakeholders.

- generate awareness among the key Indian stakeholders including trade policy-makers in the Department of Commerce, Government of India, other relevant government departments, apex business organisations

including sectorial bodies, farmer groups, consumer groups and other civil society organisations, trade unions and media.

Activities

The project will be carried out over a period of 18 months. The activities under this project are divided into two broad categories:

- *Applied Research*: It will have three components – (i) an extensive review of literature on status of trade negotiations between trading partners in the selected external PTAs will be undertaken for the purpose of scenario building, (ii) a diagnostic assessment to plot the patterns of flow of trade in goods and services and other important commercial transactions including trade related investments, trade-related competition

issues, etc. with the selected external PTA regions, and (iii) an impact assessment using a partial equilibrium model and a general equilibrium model to assess the effects on key macroeconomic variables of India.

- *Awareness Generation & Policy Advocacy*: Key informants and stakeholders from policy-recipient as well as policy-making circles will be involved in the project during the research stage itself, and a series of consultation meetings will be used for sensitising the subjects amongst these stakeholders, who are largely unaware of possible impacts of external PTAs.

Besides stakeholder consultation meetings in various Indian cities, CUTS will use popular media and publish op-ed articles based on research results for keeping the targeted audience informed about the subject matter and CUTS' quarterly dossier on external PTAs will also be used as a medium for sensitising the relevant stakeholders.

Expected Outcomes

Project results will help Indian trade policymakers and negotiators to make informed choice *vis-à-vis* current and future negotiations for PTAs/RTAs. Trade policy researchers be benefited because the project will explore methodological improvements to undertake more comprehensive analyses and, therefore, will be a valuable addition to the literature on this subject.

The study will benefit Export Promotion Councils (EPCs), especially those belonging to the affected sectors in terms of preparedness to mitigate or adapt to the impacts of external PTAs. It will also generate insights on competitive sectors and business opportunities for Indian business houses in the studied external PTA regions.