

Inception Meeting  
**External Preferential Trade Agreements and the Indian Economy: An Analysis of Impacts  
and Counter Measures**  
24 January, 2014  
New Delhi, India  
*Report*

## **1. Introduction**

CUTS International is implementing the project entitled 'External Preferential Trade Agreements and the Indian Economy: An Analysis of Impacts and Counter Measures' with support of the Department for International Development, UK and IPE Global. The inception meeting of this project was held in New Delhi on 24 January, 2014, with the objective of discussing the proposed methodology of the study with relevant stakeholders and experts.

## **2. Welcome**

2.1 Bipul Chatterjee, Executive Director of CUTS International explained the objectives of the project and pointed out certain areas which the study would touch upon. He emphasised on the need for appropriate measures to mitigate the harmful impacts that some of the mega external PTAs being negotiated such as the Trans Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP) and the EU-ASEAN FTA on the Indian economy. To address some of these challenges India needs to have better agreements with its major partners, domestic reforms to improve its IPR regime and standards to increase knowledge intensity of products. This he said would improve the countries future prospects and would push the country up the value chain. He also mentioned that the study would look into the poverty impact of these mega FTAs in India.

2.2 Cedrik Schurich, Head, India Trade Policy Unit of Department for International Development, UK/BHC stated that although these mega PTAs have not been concluded, it is important to look at their implications because they cover about 60 % of world trade. The study, he said, would look at what these mega PTAs would mean for India. He mentioned two specific areas where the study would look into, namely the poverty impact for the country and the impact on specific sectors. The results of this study can be disseminated to other developing as well as least developed countries to increase their awareness of these challenges. He also mentioned that this project can be linked to the National Foreign Trade Policy project that CUTS is doing with DFID. He also explained the functional areas where DFID works and how this project can help in their work.

## **3) Special Address**

3.1 Dr. Nagesh Kumar, Chief Economist and Director, South and South West Asia,(SSWA), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP),New Delhi shared his views on the mega PTAs. He said that this was the second wave of mega PTAs that was taking place. The first wave took place in the early 90s when the European Union was formed, closely followed by NAFTA and ASEAN Free Trade Area. As an impact of this the bulk of world trade took place outside the WTO on preferential bases. He said the other PTAs formed after this was a reaction to these mega PTAs. He went on to explain the consolidation of FTAs in Asia with the 'ASEAN plus 1' concept and how 'ASEAN plus 6' has transformed into another potential mega PTA named RCEP (Regional Comprehensive Economic Partnership).

Dr. Kumar explained the future implications of the Trans-Pacific Partnership and Trans- Atlantic Investment Partnership. He pointed out three implications that would take place:

- 1) Preferential tariff would replace the MFN tariff in the developed world.
- 2) Trade diversion to countries like Vietnam
- 3) The TTIP and TPP will create new standards for investments, IPR and government procurement

As a response to these challenges, Dr. Kumar said, India can also join the mega PTAs but he feels India is not ready to join them due to the high standards set by them. The alternative is to join another trade block like the RCEP. He mentioned that RCEP's trade is going to be larger than NAFTA and that it is a growing region with large foreign exchange reserves. India can shape RCEP to its advantage because it is one of the founder members of the block. He feels that driving RCEP should be India's primary response while simultaneously negotiating other bilateral FTAs.

Dr. Kumar emphasised that South Asia and East Asia should harness the complementarity between the two sub regions by integrating trade. He also said that there is high potential in trade between sub-regions within Asia.

Dr. Kumar spoke of the 2012 annual session of the UNESCAP where the theme of the session was regional economic integration. The four pillared approach towards regional integration that was agreed at the session is given below:

- 1) Integrating market
- 2) Seamless connectivity
  - i. Asian Highway agreement
  - ii. Trans Asian Railway agreement
  - iii. Agreement on dry ports of Asia
- 3) Harnessing the potential of foreign exchange reserve and private capital which is available in the region.
  - i. Improving the regional financial architecture
- 4) Coordinated response to the shared risk and shared vulnerabilities of Asian countries.

He said that an inter-ministerial conference adopted these recommendations and Inter government groups will be set up on trade, connectivity, finance, natural disaster and climate change mitigation.

As a counter measure he felt RCEP was practical and India should look for development friendly agreements for itself. He felt that the industries in India were not utilizing the existing FTAs well.

#### **4) Presentation on the Methodology of the CUTS Study**

4.1 Joseph George, Policy Analyst, CUTS International presented the methodology that the CUTS study will be following. He explained scale and size of these PTAs with respect to number of countries and shares in world GDP and share in world trade. He pointed out that these countries together involve about 40% of India's exports and imports and that the potential impact could be severe. He mentioned that the TPP and the TTIP are comprehensive agreements with much deeper arrangement of integration and that such agreements could present a template which the future trade negotiations may be conducted at both preferential and multilateral levels.

He explained the implications in two sections trade in goods and trade in services. Explanation for adopting a sectoral approach was given and the methodology used for identifying threatened and sensitive sectors was discussed. The sensitivity and threat were explained with TPP as well as TTIP. This approach, he said, would help quantify the trade diversion in each sector by looking at the effect each sector would have on the current account and what that would have on the economy as a whole. He explained that because of the high levels of product differentiation between products destined for the mega PTA regions and other regions, the difficulties in finding alternative markets for diverted products would be difficult and this would make the impact of trade diversion more severe for India. Therefore the sectoral approach, in which sensitive and threatened sectors will be identified, will help to study deeper aspects of trade diversion and help the study to make useful policy recommendations on a sectoral basis. Information about the impact at a sectoral level can also be used for assessment of macro level impacts on GDP, employment and poverty.

On the second section of trade in services and investment quantitative analyses will be severely constrained by lack of data. But the study would look into the new rules of trade in services and investments that will be set by these agreements and draw implications for India's negotiating positions with respect to trade in services and its own investment treaties.

In the final part of the presentation he mentioned possible ways to counter these external challenges that the study will look into. Domestic policies, especially the national foreign trade policy, should be one of the cornerstones of India's strategies. Also India should expect to take some significant changes in her approach in negotiating its own PTAs. Ongoing negotiations with ASEAN, EU and other important TPP countries assume high importance in this context. The study will examine the political economy of these important negotiations, their current status and how these negotiations can be turned into advantages, helping the country to ward off challenges thrown up by external mega PTAs. The prospects of RCEP for India will also be examined in this context. Finally, the implications on India's multilateral trade engagements under the WTO will also be considered.

## **5) Discussion**

5.1 Sajal Mathur, Professor, Centre for WTO Studies gave a brief explanation on the main differences between a mega FTA and other class of trade agreements. He explained that these PTAs went beyond tariffs and their effects will not only be limited to trade creation and trade diversion but will affect the value chains of most products and this should be incorporated into the scope of the study.

5.2 T.S. Vishwanathan, Principal Adviser, APJ-SLG Law Offices and Member, International Policy Council, Confederation of Indian Industry briefly gave the industry's point of view on the matter. He said the industry would like the agreements to first get concluded and then react to the changes. He understood that only 3-4 markets are of concern to India and the whole region is not a market for the country. He said industry looks at these regions as separate countries and not as a whole region and that the industry is not so concerned about the tariffs as they have remained low in recent past. He felt the larger firms might not find it hard to manage these challenges but the SMEs would and so they need to be aware of the challenges ahead. He feels India needs to take up services seriously while negotiating.

5.3 James Maxwell Cree Rollo, Emeritus Professor, University of Sussex, UK, explained the Lack of data to compare countries, he also expressed that he felt that these PTAs might not conclude

given the high standards they have set up for themselves. He found that the tariffs are high for specific goods and restricted trade to countries like the US. Services he felt should be looked at as value added and at value chains of products. He feels countries need to push for multilateral solutions and that these trade agreements should be look at as interim solutions. The real response to these issues is to increase domestic productivity through domestic economic policy reform.

5.4 Prabir De, Senior Fellow, Research & Information System for Developing Countries (RIS) briefly pointed out certain ways to go about the study. He explained the importance of looking at the impact of external PTAs on sectors separately. He said the study could include trade cost aspect involved in adapting high standards. Services data is a big challenge and so it might be difficult to analyse.

5.5 Farzana Sehrin, Research Associate, Centre for Policy Dialogue, Dhaka spoke about the trade diversion effect these agreements will have on Bangladesh. She said Vietnam would get preferential access to Bangladesh's export markets. According to her, industry such as textiles, leather and foot wear can be affected by these agreements.

## **6) Brainstorming among the Participants**

6.1 Some of the important points as well as questions that came during the discussion are mentioned below

- PTAs tend go beyond goods trade and look into services, investment and rule making and therefore it is important to study the possible implications of these aspects for India in the long run.
- The issue of non-tariff measures and the role that they play in influencing trade should be look at more closely in the context of the mega PTAs since they are set to change the nature of NTMs affecting India's trade.
- Prof. Shovan Ray of IGIDR pointed out that while looking at poverty issue one should not take poverty as synonym for poor country. He also pointed out that increase in trade need not necessarily trickle down to decrease in poverty and these aspects should be kept in mind while doing the assessment of impact on poverty at the aggregate level.
- Dr. Saikat Sinha Roy of Jadavpur University pointed out that the analysis needs to be carried out in at least 10 digit level to know the real impact. He also said per capita real consumption can be taken to look at poverty.
- Some of the questions that should be addressed are; Will India integrate more into the global value chains due to these agreements?; Will these agreements revive interest in the WTO?; Should India change its trade negotiation strategies? What can it offer for preferential access to markets in the US and EU?
- Geethanjali Natraj of IPE Global advised to reduce the scope/coverage of the study, if need be, so as to retain its focus on the most crucial aspects.