

‘Mega Regional Trade Agreements and their Impacts on the Indian Economy’

Wednesday, 22 April 2015

Venue: FICCI, Federation House, Tansen Marg, New Delhi

A Report

Highlights

- Tariff reduction impacts of the proposed Trans-Pacific Partnership (TPP) agreement, in terms of reduction in market access opportunities, will be relatively more on South American non-TPP countries as compared to non-TPP countries of the Association of South East Asian Nations. This is because ASEAN economies are relatively more integrated through their production networks. Therefore, India should get more and more integrated to ASEAN+5 (including Australia, China, Japan, New Zealand and South Korea) production networks so as to mitigate the negative impacts of TPP (and another mega regional: Trans-Atlantic Trade and Investment Partnership (TTIP)) on its market access. At the same time, this integration to ASEAN+5 production networks should balance India’s need for new employment generation with that of going upwards in value/supply chains.
- Though tariff reduction impacts of mega regional trade agreements (TPP and TTIP) on the Indian economy will be small, sectors such as agriculture, textiles, engineering, pharmaceuticals, will be affected. More importantly, there may be relatively more negative impacts on these and other sectors, in respect to their market access in TPP and TTIP countries, which may be as a result of more stringent rules on standards, intellectual property rights, trade facilitation requirements as per these mega regional trade agreements.
- India should consider these challenges while negotiating the other mega regional trade agreement on which it is a party: the Regional Comprehensive Economic Partnership of Asia and the Pacific, and other bilateral trade negotiations such as with the European Union, the European Free Trade Area, Australia, Canada and also by exploring new market access opportunities in the CIS group of countries, South and Central American countries and African countries.
- The implementation of the National Foreign Trade Policy of India, 2015-20, should be complemented with national policies on standards (with a particular emphasis on adopting mandatory standards), intellectual property rights (balancing India’s development needs and market access opportunities) and trade facilitation (easing cross-border movements of goods). These policies should be adopted in consultation with all relevant stakeholder groups including state governments and should be implemented as per the whole-of-government approach for better inter-agency cooperation and coordination.
- In short, India’s response to mega regional trade agreements should be a combination of:
 - ✓ mitigation of tariff reduction impacts on its market access to TPP and TTIP countries,
 - ✓ adaptation of higher standards, intellectual property rights and trade facilitation norms through domestic reforms in those areas (including looking at them to counter inessential and sub-standard imports), and
 - ✓ exploration of new market access opportunities.

1. Background

1.1 The meeting on ‘Mega Regional Trade Agreements and their Impacts on the Indian Economy’ was organised by CUTS and FICCI. The aim was to present the overall findings of the ‘External Preferential Trade Agreements and the Indian Economy (EPTA)’ report carried out by CUTS International which was managed by IPE Global and funded by DFID, UK.

1.2 The findings of the report are of great interest to the Indian government as well as the business community. Mega preferential trade agreements (mega PTAs) such as the TPP (Trans-Pacific Partnership) and the TTIP (Trans-Atlantic Trade and Investment Partnership) are set to impact emerging economies like India in unpredictable and significant ways.

1.4 Potential effects that India may sustain stem from market loss due to trade diversion and preference erosion. More significantly, the mega PTAs will attempt to overhaul the extant regime of standards making them unattainably high for developing countries like India. As noted in both the Economic Survey¹ and new Foreign Trade Policy,² India must recognise the emerging challenges from mega PTAs.

1.5 Nevertheless, despite the potential threats stemming from mega PTAs, India can take these challenges and transform them into opportunities for its economy and development needs. While market access is expected to be diverted from mega PTA regions, there is abundant space for new and alternative markets in Latin America, Central and West Asia, Africa and Eastern Europe. Additionally, the Indian industry can be encouraged to integrate deeper into value chains both in mega PTA regions and elsewhere by producing high-value products that, with the assistance of domestic reforms and more comprehensive trade agreements, will satisfy the increasingly high standards based on mega PTAs.

1.6 The CUTS study assesses the potential impact of mega PTAs on the Indian economy and provides a series of recommendations as to how India should adapt its trade policy and strategy to efficiently embrace the opportunities arising from this new international trade regime and minimize the potential negative impacts. These recommendations include unilateral measures that India could carry out by changing its own domestic regulation and other bilateral, regional, and multilateral measures that will include PTA members but also non-traditional markets which are also excluded from these mega PTAs.

1.6 The CUTS team that attended the seminar, Kyle Robert Cote, Neeraj R S and Sara Nunez Evora highly benefited from the discussions arising from the seminar and all ideas and suggestions will be considered and included accordingly to the final report.

¹ ‘Chapter 01: Economic Outlook, Prospects, and Policy Challenges’, Economic Survey 2015-2015, pp. 34-37.

² ‘Foreign Trade Policy (2015-20) Statement’, Government of India, pp. 18-19.

2. Agenda

09.45 – 10.30 Registration

OPENING SESSION

Session Moderator : Dr A Didar Singh, Secretary General, FICCI

10.30 – 10.35 Welcome Address

- Mr Pradeep S Mehta
Secretary General, CUTS International

10.35 – 10.40 Opening Remarks

- Mr Sunil Mitra
Former Revenue Secretary-Government of India and
Adviser, IPE Global Pvt Ltd

10.40 – 10.50 Keynote Address

- Ms Sujata Mehta
Secretary (ER), Ministry of External Affairs, Government of
India

10.50 – 10.55 Concluding Observations

- Dr A Didar Singh
Secretary General, FICCI

BUSINESS SESSION

- Session Moderator: Dr P Nayak, Secretary, Textile Committee

11.00 – 11.15 Presentation

- Mr Bipul Chatterjee
Deputy Executive Director, CUTS International

11.15 – 12.00 Distinguished Panel of Speakers

- Professor A Ganesh Kumar, Indira Gandhi Institute of
Development Research (IGIDR)
- Mr Arpit Bhutani, Observer, United Nations Forum on
Sustainability Standards (UNFSS)

12.00 – 12.45 Questions & Answers / Discussion

12.45 – 12.55 Concluding Remarks

- Session Moderator

13.00 Lunch

3. Proceedings of the Meeting

3.1 The meeting started with **Pradeep S Mehta, Secretary General, CUTS International**, pointing out that due to the advances in the Trade Promotion Authority, TPP and TTIP will likely be signed by the end of the year and that Canada is likely to join TTIP. Despite the threat that these mega PTAs pose to the Indian economy, he said, India has not taken mega PTAs seriously. One of the consequences of these mega PTAs highlighted by Mr Pradeep S Mehta is that they will be creating building blocks for higher standards that over time will be transferred to the WTO. He added that RCEP will be influenced by the outcome at TPP since seven members of TPP are in RCEP. In addition, the mega PTA rules will find resonance in India's bilateral trade negotiations with Australia, New Zealand, EU etc.

3.2 **Sunil Mitra, Former Revenue Secretary of the Government of India and Adviser to IPE Global**, stressed that it is not just how businesses adapt to this new international scene but it also requires a lot of work from the side of the government, such as, setting a regulatory policy framework to adapt to these new rules. According to both Mr Mitra and Mr Mehta, India has weak institutions and needs to put in place a strategy in order to align with mega PTAs and respond strategically to its impacts. In the long run, other emerging economies and LDCs that are excluded from mega PTAs can refer to the adaptation and mitigation measures that India employed to respond to mega PTAs dynamics. Mr Mitra suggested that this seminar was the perfect start for a long and sustainable dialogue.

3.3 **Sujata Mehta, Secretary (Economic Relations), Ministry of External affairs, Government of India**, exhorted Indian industry to focus on improving product standards, manufacturing and services delivery to remain competitive in the new global market of mega PTAs. As the other panellists, Ms. Mehta agreed that India needs to play a more proactive role in the new economic architecture being moulded by mega PTAs.

3.3.1 The significance of mega PTAs stems from the geo-strategic weight of its member parties. The impact of exclusion gets further magnified by the overlapping membership of parties in multiple mega PTAs making it easy for provisions in one forum to feed into other forums. To make matters worse, the negotiations have proceeded behind closed doors with very little information available in public domain, mostly from secondary sources

3.3.2 The stagnation of the DDA negotiations has pushed WTO members to explore adjunct forums to discipline emerging dynamic areas and invoke them with a normative character. But it is doubtful whether these forums will be as democratic as WTO or whether they will simply reflect the interests of advanced countries. Most likely, she argued, the provisions at mega PTAs will filter into WTO discussions and hence a delicate balance between domestic and international obligations will rise from this geo-strategic architecture that is under evolution.

3.4 **A Didar Singh, Secretary General, FICCI**, who moderated this session, pointed out that while we look at the global situation we should look at the impact on our businesses. The crucial question is how to maintain competitiveness and tariff is only one item on a long list of barriers to trade. Industries very often face a binary dilemma- of either upgrading product standards or losing market access. Indian manufacturers should embrace the "Zero Defect, Zero effect" slogan that qualifies the Make in India campaign.

3.4.1 He added that the aim should be to produce world class products which have no environmental spill overs. The government should prepare a strategy to overcome these challenges, and include all these factors on a holistic approach. However, he raised the concern of whether at all India will be invited to be part of this new generation of rules and went even further questioning whether India is actually ready to be invited.

3.5 In a presentation given by **Bipul Chatterjee, Deputy Executive Director, CUTS International**, the overall findings of CUTS International research on the impact of mega RTAs on the Indian economy and recommendations were provided. He noted the various challenges that are expected to arise from mega RTAs, including trade standards, subsidies, trade facilitation, and agriculture market access. Based on the research, opportunities to address these challenges were given as well as enhancing bilateral and multilateral trade relations.

3.5.1 Importantly, the Regional Comprehensive Economic Partnership, to which India is a member, was presented as a strategic opportunity to respond to mega RTAs and begin to upgrade its own standards. In particular, he concluded that the impact on trade diversion on account of tariff reductions will be rather small, but India's market access may get significantly affected due to higher standards on rules, which are expected to be adopted by these mega RTAs.

3.5.2 He added that the new foreign trade policy has, for the first time, looked at trade as a tool in order to achieve security and strategy objectives in the long term and mainstreams trade into India's national development policies. Finally, he emphasised that what is critical for India in responding to the challenges of mega RTAs is how its industries can remain competitive in the global market.

3.6 A **Ganesh Kumar, Professor at Indira Gandhi Institute of Development Research**, described his findings of trade diversion based on CGE modelling using the GTAP database. The simulations suggest that trade diversion due to tariff reduction may not be as severe as expected. India should remain active at the multilateral level, since a multilateral outcome would be the best scenario.

3.6.1 However, considering the slow progress at the WTO negotiations, India should actively pursue new bilateral and regional trade agreements. Another option suggested by him is that India should draft its trade policies and strategies in a way that it better integrates into global value chains. The simulations throw open important lessons for India. It is noticeable that the impact of TPP on non-TPP ASEAN members will be much lesser than the impact on non-TPP Latin American countries. The effect on non-TPP ASEAN members will be assuaged by the deep trade linkages that exist in the region. Latin America, much like the SAARC region continues to be fragmented and the effects will therefore be exacerbated.

3.7 **Arpit Bhutani, Observer at United Nations Forum on Sustainability Standards**, discussed how private standards from industry could be the new model for public standards and that close consultation between the government and stakeholders will be key in addressing the challenges of mega RTAs. Involving micro, small, and medium sized enterprises will be especially important. One only needs to look at the contribution of MSME sector to India's GDP and employment ratio to recognise their importance. Through technical assistance and capacity building the MSME sector should be made adept in entering regional and global value chains.

3.7.1 He added that the threats rising from higher standards at mega RTAs, one of which is that TPP/TTIP provisions will have trigger effects on RCEP bringing some of these provisions into the RCEP text. It has been the case with private standards that they very often form the testing bed for International standards. Private standards have started guiding procurement decisions across value chains and consumer preferences. Hence, these standards will have a de facto legal sense but they cannot be challenged within the WTO legal framework. According to him, India could either do nothing and reject these standards or enact domestic reforms in order to comply with these new standards which have proven to be difficult. It could either join the mega PTA negotiations and become a standard setter or compete with them by reengaging the WTO or by looking at non-traditional markets.

3.8 A very engaged audience used the Q&A section to present their concerns over the new generation international trade rules and their impact on Indian businesses. One of the issues raised by a representative from the Eastern Uttar Pradesh Chamber of Commerce was that the responsibility of remaining export competitive relies not just on the exporters but is the responsibility of each and every system of this country: from sectors producing inputs to regional offices in charge of training programmes to customs authorities facilitating trade.

3.8.1 A representative from the textile industry raised his concern that India should not be demoted as the raw material supplier for the textile industry with Vietnam and Malaysia being the final suppliers and observed that it will be difficult to get efficacious outcomes from RCEP owing to the presence of China.

3.8.2 A representative from the engineering sector said that many similar countries with regard to the engineering sector were part of TPP and that this will negatively impact India's engineering sector. He added that India should not just enhance export standards but also imports standards. If India concludes negotiations with RCEP, the text should be drafted in a way that cheap and low quality products from China do not enter the Indian market.

3.8.3 A representative of the pharmaceutical sector brought to attention how advanced countries have disparaged the market access for Indian drugs by taking recourse to TRIPS-plus provisions. This was a unique case of Indian products being globally competitive and matching cutting edge standards and yet being denied market access in advanced countries.

3.8.4 **P Nayak, Secretary, Textile Committee**, stressed the need for more mandatory standards. In the textile sector, countries like Bangladesh have achieved comparative advantage over India through investor friendly regulations, he added.

3.8.5 Bipul Chatterjee added that we need to adopt a multi-pronged approach. At the end of the day, the aim is to become more competent, however competitiveness combines many factors such as the cost of land and fuel, quality, standards, etc. He questioned why tariffs are so high and argued that together with other factors such as India's land regulations, these high tariffs are needed for the Indian industry to remain competitive.

3.8.6 Arpit Bhutani said that we do have our own standards but the problem is about implementation. He used as an example a standard called INDGAP, which is aligned with global standards and focuses on MSMEs. The government has to facilitate the transition towards complying with these standards. The government should also be quick in responding to the challenges faced by Indian businesses. It can grant legitimacy to domestic private standards by making them mandatory so as to prevent the import of sub-standard goods.