

OPTIMIZING FREE TRADE AGREEMENTS FOR INDIA: MARKET INTEGRATION, TRADE BALANCE, AND STRATEGIC PARTNERSHIPS**Asst. Prof Rohan Bavadekar**, Faculty, Law Department, Tilak Maharashtra Vidyapeeth, Pune-37**Assoc. Prof. Ashutosh Naik**, Faculty, Law Department, Tilak Maharashtra Vidyapeeth, Pune-37**Abstract-**

Free trade agreements (FTAs) aim to reduce tariffs and facilitate the free flow of goods and services between nations, fostering economic growth and collaboration. This article explores the conceptual framework of FTAs, highlighting various types such as preferential, unilateral, bilateral, and multilateral agreements. The potential benefits of FTAs include trade liberalization, competitive markets, convenient access to foreign goods, fewer trade barriers, optimal globalization, and employment generation. However, India's experience with FTAs has been mixed, with low utilization rates and trade deficits with key partners like ASEAN, South Korea, and Japan. Factors contributing to this include stringent rules of origin requirements, high documentation costs, and a lack of awareness among exporters, particularly small and medium enterprises.

Despite these challenges, India's recent agreements with the UAE and other countries show promise. The India-UAE FTA, for instance, has significantly boosted bilateral trade, demonstrating the potential for economic gains. The article emphasizes the need for strategic planning in FTA negotiations, focusing on balanced market access and minimizing administrative hurdles to maximize mutual benefits. Additionally, it suggests that India should enhance its export profile by focusing on higher value-added goods and improving awareness and utilization of FTAs among businesses. This strategic shift is crucial for India to fully harness the benefits of free trade and foster sustainable economic growth.

Keywords: Free Trade Agreements, Trade Liberalization, Economic Growth, Market Access, India, Trade Deficit

Introduction -

A Free trade Agreement (FTA) is an agreement between two or more countries where the countries agree on certain obligations that affect trade in goods and services, and protections for investors and intellectual property rights, among other topics.[1]As expansion continues, every nation aspires to increase its market share beyond its current borders. Every developing country reaches the point of productivity where there is a surplus of production because of persistent efforts towards economic success. As the nation develops a comparative advantage in a range of items, it has also begun to exhibit deficit issues in a number of industries. These indicators create the framework for many forms of international trade. When Adam Smith and David Ricardo created these theories, they made the assumption that there wouldn't be any transaction fees or charges associated with transfers. However, when global trade developed following World War I, nations all over the world began to show "favouritism" in their trade with one another.

The foundation of every mutually beneficial exchange of value between the economic agents is complementarity in production and consumption, according to mainstream economic theory. One could argue that a compelling argument for free trade between states is the equitable sharing of profits from the trading of commodities between them. Mainstream economic theory frequently accepts that the greatest way for countries to maximise social welfare is through international free trade.

The phrase "free trade" or "laissez faire" policy is where the entire field of economic theory originated. The Father of Modern Economics, Adam Smith, introduced ideas like free and fair economies. Demand and supply dynamics drive the entire market system as the economy grows, and since the invisible hand works to maintain equilibrium, disequilibrium never occurs. Hence, government intervention should be avoided in order to create this harmony and balance. So the idea of free trade evolved to gain the best of the market.

• **Conceptual Framework –**

A free trade agreement is a deal that lowers import and export tariffs between two or more countries. Free trade policies provide for the free flow of products and services across international borders with little to no restrictions on their exchange from the government in the form of tariffs, quotas, subsidies, or prohibitions.[2]

It is important to realise that imposing trade restrictions goes beyond simply charging a fee for the transfer of goods. It might make the product more expensive or less expensive on the market (if subsidised). However, imposing economic constraints alone is not a workable solution in complex international politics. Therefore, any country can impose trade restrictions by outlawing specific goods or by permitting the free entry of a set quantity of a good, with additional imports incurring fees (quota system). Protectionism is the result of these various limitations. It is not just about financial stability; it is also a powerful tool for containing political developments.

Governments are thus severely limited in their ability to implement the full benefits of free trade. As a result, a wide range of agreements with several clauses emerge. These accords lay the groundwork for a comprehensive free trade system, but in order to preserve some political wiggle room and to take advantage of the global market, each government must first sign these agreements.

The South Asian Free Trade Agreement is in effect, but because of political problems, India and Pakistan do not fully profit from it. India and Pakistan are the clearest illustration of such a situation. Due to their tense relations, India and Pakistan are continuously imposing tariff and non-tariff fees on their respective goods. India had so made numerous bilateral agreements with other south Asian nations in order to reach a halfway position. such as Bangladesh, Sri Lanka, etc.

‘The trade potential between India and Pakistan stands at \$37 billion, according to a World Bank report which said that continued political tensions and lack of normal trade relations between the two nations have cast a shadow over cooperation efforts within South Asia.’[3]

So, we can clearly see how much free trade mechanism contains economic potential for those two countries. To tap those benefits, many types of free trade agreements are signed –

1. **Preferential Trade Agreement**

In this type of agreement, two or more partners give preferential right of entry to certain products. This is done by reducing duties on an agreed number of tariff lines. Here a positive list is maintained i.e. the list of the products on which the two partners have agreed to provide preferential access. Tariff may even be reduced to zero for some products even in a PTA. India signed a PTA with Afghanistan.

180 trade agreements—149 of which are preferential trade agreements—were notified to the World Trade Organisation (WTO) in November 2005. Vertical and horizontal membership became a phenomena as a result of the quick rise in the variety of trade agreements.

2. **Unilateral Trade Agreements**

are commercial agreements that exclusively help one country and are therefore biased. In order to promote development, they frequently give developing nations trade benefits and enable countries to reduce trade barriers with one another. Other nations are powerless to influence the accord, and it cannot be negotiated. Under the Generalised System of Preferences (GSP), the United States maintains unilateral trade policies. These agreements are signed with the goal of development and growth in that poor country.

3. **Bilateral Trade Agreements –**

Unlike unilateral agreements, these agreements are between two countries, and each country decides what tariffs and customs to apply to the other's product.

4. **Multilateral Trade agreements –**

are between more than two countries, the United States-Mexico-Canada Agreement (USMCA), for example. These are the most powerful but also have the most obstacles as it's harder to reach mutual satisfaction.[4]

In the realm of international commerce, nations engage in various types of trade agreements to unlock mutual trade benefits on a broader scale. While these agreements may not exclusively fall

under the umbrella of free trade, they invariably contribute to fostering a degree of trade liberalization. Recognizing the potential for enhancing economic prosperity, countries have increasingly sought to fortify these agreements, paving the way for the establishment of free trade areas geared towards regional development.

These initiatives represent a strategic approach to augmenting the advantages derived from shared economic landscapes. By fostering collaboration within regions characterized by similar social, environmental, and cultural patterns, countries aim to create more robust trade networks. This not only contributes to economic growth but also fosters a harmonious environment conducive to sustainable development.

- Free Trade Areas and advantages –

In theory, we can succinctly outline certain advantages as follows:

1. Promotion of trade liberalization.
2. Encouragement of competitive markets and production.
3. Facilitation of convenient access to foreign-traded goods.
4. Promotion of trade with fewer barriers.
5. Facilitation of an optimal form of globalization.
6. Generation of employment opportunities.

These represent some of the advantages of free trade agreements based on theoretical knowledge or principles.

World Trade Organization is the crucial institution in the sector of international trade . WTO put some principles in action for the free and fair international trade between countries, We can summarize those principles in following points –

Trade Without Discrimination –

This principle includes The Most Favoured Nations treatment, where countries are not allowed to discriminate or favour certain countries. There are certain exceptions like free trade agreements between particular groups, having many free and restrictionless flow of specific goods under the agreement.

According to the WTO agreements, countries are generally prohibited from showing favouritism to specific trading partners. If a country provides a unique benefit, such as reducing customs duties for a particular product, it must extend the same treatment to all other members of the WTO.

Another principle rooted in non-discrimination in trade is known as national treatment. This principle dictates that any foreign or domestically produced goods should be treated equally, without any discriminatory measures based on their origin. There should be no biased treatment between goods produced locally and those originating from foreign sources.[5]

Another principle of the WTO is the promotion of freer trade, achieved gradually through negotiations. This approach aims to foster fair competition among countries. By briefly examining the aforementioned principles of the WTO, it becomes apparent that free trade agreements serve as means to realize these principles more effectively on a national scale.

If we want to understand the power of free trade agreements for certain areas. Lets take an example of one of the free trade regional agreements. North American Free Trade Agreement (NAFTA). Currently is known as US-Mexico-Canada Agreement (UMCA). But for the understanding stick to NAFTA here. The North American Free Trade Agreement (NAFTA), which was enacted in 1994 and created a free trade zone for Mexico, Canada, and the United States, is the most important feature in the U.S.-Mexico bilateral commercial relationship.

The agreement facilitated a dynamic exchange, resulting in a substantial total trade volume of USD 678 billion in goods and services. This expansive trade relationship has proven instrumental in sustaining millions of jobs across various sectors in the United States, underscoring the far-reaching impact of NAFTA on the American economy.

Within this framework, the United States achieved remarkable sales figures, exporting USD 265 billion worth of U.S. products to Mexico in 2018, coupled with an additional USD 34 billion in services. The cumulative effect amounted to a substantial USD 299 billion in U.S. sales to Mexico, highlighting the mutual benefits derived from the trade agreement.

Crucially, NAFTA has strategically positioned Mexico as the primary or secondary export destination for 27 U.S. states. This underscores the geographical diversity of the positive economic impact facilitated by the agreement, spreading its benefits across various regions of the United States.[6]

So we can see it clearly that how NAFTA created a base for the US economy to bolster its trade partnership with Mexico. It doesn't only develop US economy but also made Mexico to enjoy the fruits of American development benefits.

These and other free trade agreements, such as the ASEAN Free Trade Area and SAFTA (South Asian Free Trade Agreement), are signed in order to integrate all markets and enable competitive production in that specific region. These free trade zones enable the industrial and production sectors to operate with increased productivity and efficiency. Research and development is also given top priority in these industries due to the expanding sales market and rising client demand from all of these sectors.

New production methods and branding campaigns take off like wildfire when supply and demand grow to meet the same level. Additionally, it draws in new talent and global jobs. Possibilities for employment not only improve a nation's economic standing but also allow for increased remittances from its citizens. In the end, these occupations contribute to raising the national income of all nations both domestically and internationally while preserving a strong current account position and improved foreign exchange inflow.

But Indian story of trade agreements is different theoretically; Free Trade Agreements are quite beneficial and positive for the free trade principle as per world trade organization.

- India & Free Trade Agreements –

With an ambitious export shipping target of USD 450–500 billion by FY23, India had been discussing Free Trade Agreements (FTAs) with a number of partners, both bilateral and regional, over the past two years in an effort to strengthen export-oriented domestic manufacturing.

Thirteen regional trade agreements (RTAs) and free trade agreements (FTAs) have been signed by India with different nations and regions, including South Korea, Japan, ASEAN countries, Mauritius, United Arab Emirates, Australia, and Mauritania. In the past ten years, India's exports of goods to each of these nations or regions have increased.[7]

India has a large number of free trade agreements, or comprehensive economic partnership accords (CEPA), with other nations. Free trade agreements are the subject of ongoing discussions between Oman and India.

Do you think that all of these free trade agreements were a problematic thing for India? Since these agreements come with a number of restrictions and administrative hurdles. Even if tariffs were minimised and decreased, there are several Indian rulebooks that make it difficult to approve trade or accept shipments. India's FTA utilization rate as per the Asian Development Bank, has remained under 25%, among the lowest in Asia. India has traditionally experienced a low utilization rate of Free Trade Agreements (FTAs) due to factors like stringent rules of origin (ROO) requirements, high documentation costs, and a lack of awareness about FTAs. It is noteworthy that Micro, Small, and Medium Enterprises (MSMEs) account for approximately 40% of India's exports. Therefore, enhancing awareness among MSMEs about FTAs is essential to improve their effective utilization.[8] Prior to delving deeper, it is vital to comprehend the extent of trade that the Indian government engages in with all of the countries with which it has free trade agreements.

India and UAE Free trade agreement is aiming for huge trade expansion in next five years, as this agreements was signed on 18 th February 2022 and came into force on 1st may 2022. In the fiscal year 2022-23, the bilateral trade between India and the UAE has reached unprecedented levels. Notably, there has been a substantial increase from US\$ 72.9 billion (April 2021 to March 2022) to US\$ 84.5 billion (April 2022 to March 2023), reflecting a remarkable year-on-year growth of 16%. Furthermore, during the period of implementing the Comprehensive Economic Partnership Agreement (CEPA) from May 2022 to March 2023, the bilateral trade escalated from US\$ 67.5 billion (May 2021 to March 2022) to US\$ 76.9 billion (May 2022 to March 2023), marking an impressive annual surge of 14%.[9]

The latest trade agreements between India and the UAE address the shortcomings identified in previous free trade agreements. One significant flaw in past agreements was India's lack of agreements with its major trading partners, resulting in higher tariffs and non-tariff barriers. However, the recent agreements with the UAE, a natural trading partner for India dealing in products such as metals, minerals, pearls, and agricultural goods, have rectified this issue. These agreements encompass a wide range of products, including both final and rare commodities. India's strategic shift in its foreign trade relationships, particularly with South Asian nations, has played a pivotal role in altering its trade balance, mitigating deficits previously encountered.

The analysis of India's three key FTAs with ASEAN, South Korea, and Japan, signed in 2010-2011 reveals India's merchandise trade deficit with these partners increased significantly more than its global trade deficit and India's exports to these FTA partners have increased at a lower rate than its imports.[10] Why did this happen? There is simple logic of market access and type of exports which decides the course of advantage of such Free Trade agreements. Upon engaging in a Free Trade Agreement (FTA) with a developed nation, a developing country gains preferential entry for its shirts and shoes into the developed market. However, in reciprocation, the developing country is required to eliminate duties on the majority of its products. While the developing nation receives increased market access for 30% of its goods, the affluent country, in contrast, secures additional market access for over 90% of products, including their overall value.

Thus, India doesn't fall short in terms of trade scale when engaging in trade agreements, as integration of markets and products has occurred. However, the deficiency lies in the export of low semi- or fully-manufactured and modern technological products. Consequently, India lags in the valuation of exports. Despite opening our economy to countries with which India has agreements, providing them with low-tariff access to our extensive market, India has not managed to secure a significant market share. Low value addition: India's top exports feature low-value added goods such as refined petroleum, gems, and jewellery, as per data from the World Integrated Trade Solution database[11]

Going into more detail, despite India's advantageous position in primary goods like vegetables, fruits, cereals, fuel, and minerals, a substantial portion (24 percent) of exports to Free Trade Agreement (FTA) partners primarily comprised metals and semi-manufactured products in the year 2019. The semi-manufactured products sector is already dominated by China and ASEAN nations like Indonesia, Vietnam, and Thailand. This scenario results in a lack of structural complementarity in the traded goods, diminishing the potential for trade. Research indicates that regions with structural dissimilarity tend to offer more opportunities for trade, thereby enhancing the prospects for a successful Free Trade Agreement. Two trading nations with distinctly different export profiles can be deemed structurally complementary to each other.[12]

According to theoretical predictions, trade agreements established with neighboring countries should be successful due to lower freight costs and shared cultural connections[13]. However, India's regional trade is significantly restricted, even with existing agreements like SAFTA [14]

In contrast to the UAE, countries such as Australia and the United Kingdom may not initially engage in extensive trade with India. Nevertheless, the trade profiles of these nations exhibit a considerable degree of complementarity, categorizing them as natural trading partners. In specific terms, India imports resources and primary products from Australia while exporting finished goods to these nations.

So in short, India is not fructifying from its free trade agreements. As these agreements are getting stuck in compliances and more administrative regulations. Another thing is that these agreements may have increased the trade between the India and partner country, but in majority of the cases like Thailand, ASEAN, the latter party become beneficiary and India suffered trade deficit with them. So in conclusion, free trade agreements are not end in itself,

India needs to strategically plan its agreements by efficiently managing the trade of goods and services. Instead of solely viewing other nations as export gateways, India should also be cautious about the access it provides to the vast Indian market for partner countries. While India may benefit

from reduced tariffs, partner nations can experience significant advantages through tariff-free access and a substantial market for their products. Therefore, it is crucial to ensure that free trade agreements are crafted with a well-balanced approach to market access, particularly with natural partners.

Another essential recommendation is that the benefits of these agreements should not be accompanied by a coercive system of approvals for shipments and goods. India has learned from past drawbacks and is moving forward with a new vision for trade. Let's work towards making free trade a reality with a maximized win-win outcome for all involved.

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