India’s New Strategy Towards FTAs

Kavaljit Singh
Madhyam, New Delhi

Presentation at the Workshop “India-European Union FTA: For Whom?”

February 8-9, 2012
India Habitat Centre, New Delhi
The Past and Present

■ Till mid-1970s, India didn’t sign a single bilateral or regional FTA. Same was the case with Asia.

In 1975, Asia-Pacific Trade Agreement (Bangkok Agreement) was signed at the initiative of ESCAP, but with very limited scope. India also signed APTA.

■ In the last decade, FTAs have mushroomed.

■ Asia is the epicenter of FTAs.

■ Asia has concluded maximum number of FTAs in the world. In 2010, 61 FTAs were concluded in Asia. Another 86 FTAs are under negotiation/proposed.
The Status of FTAs in Asia (2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Proposed/Under Negotiations</th>
<th>Concluded</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>14</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>India</td>
<td>22</td>
<td>11</td>
<td>33</td>
</tr>
<tr>
<td>Korea</td>
<td>20</td>
<td>07</td>
<td>27</td>
</tr>
<tr>
<td>Pakistan</td>
<td>18</td>
<td>08</td>
<td>26</td>
</tr>
<tr>
<td>China</td>
<td>12</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Thailand</td>
<td>13</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td>Malaysia</td>
<td>12</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Japan</td>
<td>08</td>
<td>13</td>
<td>21</td>
</tr>
<tr>
<td>Australia</td>
<td>13</td>
<td>08</td>
<td>21</td>
</tr>
</tbody>
</table>

- Despite a late entrant and less integrated than Asian peers, India is at 2nd position.
- Countries are keen to sign FTAs with India because we are the second-fastest growing economy, consumer markets are booming and favourable demographics.
Why FTAs are Spreading So Fast?

Despite FTAs are difficult to manage and enforce due to complicated RoO.

■ Bilateral/regional FTAs are relatively easier to conclude than negotiations at the WTO because the agreement is usually among a small number of “like-minded” countries rather than “diverse” 155 member-countries of WTO.

■ Slow progress in trade liberalization at multilateral level. Doha Round began in 2001. Not only dependent on WTO process. Even countries (e.g., Japan) which strongly believe in multilateral trading system are also aggressively pursuing FTAs.

■ Even if Doha round is concluded in near future, countries will keep signing FTAs because of quick market access under FTAs.

■ WTO deals with “bound rates” which are ceilings on customs duties. Whereas FTAs deal with “applied rates” which are actually charged on imports and generally lower.
■ WTO-plus issues (investment, competition policy and government procurement) could be easily pursued under FTAs (e.g., India-EU, ASEAN-Korea FTA).

■ FTAs “lock in” economic reforms which makes reversal of policies very difficult.

■ FTAs are living agreements. Nowadays reviews of FTAs are becoming regular. India-SG FTA was signed in 2005 but has been reviewed twice and its coverage in services has been enlarged.

Under India-EU FTA, presently Data Exclusivity may not be included. Once this FTA is signed, the inclusion of data exclusivity in the next review (3-4 years) cannot be ruled out.

Same may happen to multi-brand retail trading. It could be included in the next review once India unilaterally opens up this sector.
Some Trends in India’s FTAs

- The majority of India’s earlier FTA were S-S FTAs.

- In the 1980s and 90s, India’s bilateral agreements were with our South Asian neighbors.

- The initial FTAs were restricted to trade in goods with a gradual elimination of tariffs (e.g., India-SL FTA).

- The major push for FTAs came from UPA (I) Govt. in 2005. The PM office established a Trade and Economic Relations Committee (TERC). PM chairs TERC and its members include: NSA, Minister for External Affairs, Finance, Commerce, Deputy Chairman (PC), as members.

All the major policy decisions re FTAs (identifying countries and framework) are taken by TERC. Once the decision is taken by TERC, MoC implements that decision.

The TERC should be rather called “FTA Committee.” Out of 51 activities taken up by TERC, 50 are directly related to FTAs.
Post-2005, New FTAs include immediate elimination of tariffs rather than a gradual approach.

The New FTAs include substantially all trade (which implies elimination or reduction of 85 percent of tariff lines).

The latest trend is towards N-S FTAs.

India’s new FTAs are no longer restricted to trade in goods but are in the form of CECA/CEPA Model. Some prominent examples: India’s FTAs with Singapore, Malaysia, Japan, Korea and EU.

India’s N-S FTAs (e.g., Japan and EU) include:

* Deeper liberalization of services.

* GATS-plus measures.

* WTO-plus issues (rules on investment, government procurement (central govt.), trade facilitation and competition policy).
Even India’s recent South-South FTAs are vastly different in substance from S-S cooperation initiatives of 1970s & 80s in the sense that the new FTAs include strong investment liberalization and protection measures and the agenda is mostly corporate driven.

The Strategic Dimension

Apart from commercial interests, there is a long-term strategic agenda to increase India’s influence in Asia and the world.

“Our approach to regional trade agreements in general, and FTA in particular, has been evolved after careful consideration of our geo-political as well as economic interests.”

- Prime Minister, Manmohan Singh wrote in a Letter to Sonia Gandhi, UPA Chairperson on India-ASEAN FTA (20 April, 2006).

MEA played a vital role in India’s FTAs with ASEAN and other Asian countries.
Services: The New Agenda

India is aggressively pushing for services liberalization under FTAs.

Why Services?

■ Services sector is the largest sector of Indian economy (55% of GDP). It is the fastest growing sector. It grew 10% annually between 2003-08.

■ India’s services exports are growing much faster than world services exports.

■ India’s services exports reached $103 billion in 2008. Out of which, IT and software exports were $42 billion.

■ There is strong domestic lobby of IT and business services which thinks that FTAs will provide them greater market access in other countries.
- India’s comparative advantages are in IT services which are skill-intensive.

- If India liberalizes services trade, import of services will also increase.

- Big private sector banks (e.g., ICICI) wants to tap workers’ remittance.

India is the largest recipient of workers’ remittance in the world. In 2011, workers remittances were $57 billion, much higher than FDI inflows.

The new private sector banks wish to serve non-resident Indians living in Europe, North America and Asia.

- There is a strong thinking in policy circles is that gains made in services under FTAs can compensate the pains suffered in agriculture and manufacturing sectors.
Will Anticipated Gains in Services Materialize?

- There is no guarantee because we have seen under India-Singapore FTA, there is no reciprocity in market access in banking services.

Under this FTA, we have given full national treatment to SG banks and implemented all provisions related to market access. But Indian banks have been denied NT in SG on the grounds that Indian banks are not very sound.

- Under India-ASEAN FTA, we have seen that ASEAN countries quickly signed for agreement on trade in goods (where they have a competitive edge) but are very reluctant to sign the services agreement. The original pact had both goods and services.

- The gains for several Indian IT companies involved in call center and BPO businesses may be short-term as other Asian countries such as Philippines are fast catching up.

Philippines has already replaced India from the top position in call center businesses. The average wages in call centers in Philippines are 20 percent lower than in India. Unlike Indians, Filipinos speak English with an American accent. In fact, many Indian IT companies involved in call centers are investing in Philippines.
Investment Liberalization and Protection

India is increasingly including investment issues under FTAs despite taken a firm stand against investment issues at WTO.

India’s FTAs with Singapore and Korea cover both cross-border investment liberalization and investment protection measures.

Why Investment?

■ The government thinks that FTAs will bring more foreign investments into country. It fits into current policy framework of attracting greater foreign investments.

■ Nowadays cross-border investments have become a two-way street.

A number of big Indian companies are becoming multinationals and are investing in Europe, Asia, Africa, US. The government thinks that FTAs will provide greater market access and investment protection to Indian companies investing abroad.
Much of OFDI is in the form of acquisitions, rather than greenfield investments. Nowadays the Tata group has more assets outside India than in the country. Tata Steel bought Corus. Tata Motors bought Land Rovers and Jaguar. Airtel bought Zain telecom’s business in Africa.

During 2010-11, the total outward FDI by Indian companies was $43 billion. While the FDI inflows were $30 billion. So there was a net outflow of $13 billion.

Services accounted for 59% of the outflows and manufacturing for 28% in 2010-11.

The majority of outward FDI is directed towards tax havens which are used as intermediaries to invest in third countries.

SG, Mauritius and Netherlands accounted for over 60% of total OFDI during 2008-11.
## Direction of India’s Outward FDI

(US $ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January-March</td>
<td>April-March</td>
</tr>
<tr>
<td>Singapore</td>
<td>242</td>
<td>3747</td>
</tr>
<tr>
<td>Mauritius</td>
<td>473</td>
<td>2072</td>
</tr>
<tr>
<td>Netherlands</td>
<td>93</td>
<td>2788</td>
</tr>
<tr>
<td>USA</td>
<td>205</td>
<td>925</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>54</td>
<td>268</td>
</tr>
<tr>
<td>Channel Island</td>
<td>19</td>
<td>44</td>
</tr>
<tr>
<td>UAE</td>
<td>165</td>
<td>599</td>
</tr>
<tr>
<td>Cyprus</td>
<td>2007</td>
<td>2289</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>UK</td>
<td>36</td>
<td>343</td>
</tr>
<tr>
<td>Others</td>
<td>810</td>
<td>3130</td>
</tr>
<tr>
<td>Total</td>
<td>4105</td>
<td>16228</td>
</tr>
</tbody>
</table>
Indian Inc. “Arrived” or “Departing”? 

- Indian companies are investing abroad primarily for markets, acquiring technology and raw materials.

- Over 50 Indian food companies have acquired agricultural land in Asia, Africa and Latin America for plantations and commercial agriculture.

The new trend is towards “outsourcing” of domestic food production.

KS Oils (edible oil food company and wants to become a “true Indian MNC”) acquired 138000 acres of land in Indonesia for palm oil plantations in 2010.

Bangalore-based Karuturi Agro acquired 100000 ha of land in Ethiopia for growing palm, cereals and floriculture.

- India has signed duty-free tariff schemes with Ethiopia to encourage this trend.

- When Indian companies invest abroad, they need assurance that their investments would be protected. So you find investment issues included in future FTAs, more so in S-S FTAs.
Losers and Gainers of India’s FTAs

We have to move beyond simplistic understanding that India will a complete loser and all gains of FTAs will be made by foreign countries, their MNCs and service providers.

We need a much more nuanced understanding.

There will be both gainers and losers in India.

Certain businesses and sections of Indian society may gain.

If custom duties on luxury cars are reduced, rich and super-rich will gain as they can buy BMW and Audi cars (made in Europe) at cheaper prices.

Indian IT companies will gain if the movement of professionals under Mode IV provisions is included under India-EU FTA.

But a large number of small farmers, producers and businesses may lose if we allow cheaper imports of agricultural and industrial products.
Losers and Gainers of India’s FTAs

- Indian MNCs may gain from India-EU and other FTAs.

India may also gain some strategic influence in Asia and elsewhere through these FTAs.

BUT the question we should ask: Why these gains should be at the cost of millions of farmers, plantation workers, industrial workers who may eventually lose from FTAs.

- What is good for IT companies may not be good for small farmers, retailers, fisher folks and small businesses.

After all, IT sector provides direct employment to only 2 million people as compared to hundreds of millions employed in plantation, agriculture, fisheries, and SMEs.

- Unlike Western countries, there is no social security net in India to take care of people who may lose their jobs and traditional livelihoods due to reduction in tariffs.
Some Demands

- The government should release a policy document and explain to the Parliament/people why we are signing FTAs, who will benefit/lose from FTAs.

- We should demand a comprehensive evaluation of India’s existing FTAs. The government should evaluate what has been gained/lost and who has gained/lost.

- Transparency in negotiations.

- The need for wider consultations. So far the government has held consultations with Apex Chambers of Commerce. They don’t represent all the businesses of India. The government should initiate wider consultations with SMEs, farmers’ groups, community based organizations, trade unions and trade experts on an equal footing.

- Involve state governments and regulatory bodies (RBI) in negotiations.

- Let Parliament ratify all FTAs and other international trade agreements. Even Dominican Republic has such provisions. Why India – the largest democracy in the world – should not have such provisions?
Thank You