

For more FTAs, need for greater trade openness

THE GOOD NEWS regarding India's trade deal with the US—which is the ninth since the ruling dispensation came to office in 2014—comes when adverse headwinds negatively impact global trade, which in turn has knock-on effects on the Indian economy. An interesting factoid is that more than half of India's exports of goods and a third of imports will flow through these nine trade deals. More such bilateral and regional agreements are on the anvil, with India diversifying its trading relationships as the world fractures broadly into US- and Sino-centric blocs. To facilitate more such deals, government policy must go all in to promote greater trade openness and outward orientation to navigate the uncertainties in global trade.

Out of all the trade agreements that were negotiated since 2014, those with the European Union and the US are big-ticket deals with the most powerful economies in the world. With the US, however, the absence of any deal text renders it difficult to assess what India has agreed to secure this agreement. The highly unpredictable US President Donald Trump has claimed that India would stop imports of Russian oil, reduce its tariffs and non-tariff barriers on the US to zero, and commit to buy over \$500 billion of American goods, including energy, technology, and agricultural products for the US to lower reciprocal tariffs on India from 25% to 18%. All of this offers

- relatively limited comfort for India to be part of the US-centric bloc.



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Aligning with the Sino-centric bloc is equally problematical. Although tensions have de-escalated on the border, de-induction and disengagement of troops has not begun. Like the US, the dragon has used coercive economic measures to impose its will on an economically weaker India, like blocking shipments of rare earths, fertilisers, and tunnel boring equipment. India's trade imbalance is massive and accounts for 35% of its global trade deficit. By amassing troops and making border incursions at will, China only recognises India only as a weaker neighbour and not as one with whom it can persuade to join its bloc as an ally. Bilateral tensions can only be resolved by narrowing their relative economic power differential.

To cope with a fractured world, what is needed is a bold agenda on trade openness that improves India's prospects through free trade agreements (FTAs) with middle powers, the Global South, and mega groupings like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). India's average most-favoured nation (MFN) tariffs are one of the highest at 16%, and there are pressures from developed nations with whom we have trade agreements to bring them down. An across-the-board cut in duties in alignment with, say, the Association of Southeast Asian Nations (ASEAN)—as recommended in Budget 1997 and later by a member of the Economic Advisory Council to the Prime Minister last year—will definitely send the right signals.

As India will ink more FTAs, lower average tariffs, including those on inputs and intermediates going into its exports, would boost its trade prospects and integration with global value chains. In this regard, its trade deals with Australia and New Zealand are indeed crucial for its evolving outreach to the bustling India-Pacific region as they are also members of the CPTPP. So, too, are four ASEAN members. Considering India's reluctance to be a part of the blocs led by the US and China, it makes much more strategic sense to use its competitive MFN tariffs in alignment with ASEAN as a basis to join the CPTPP in the future. But this cannot happen if the tariff question is addressed in only a piecemeal manner rather than through overarching rationalisation. Many of these nine deals are also deep FTAs covering a broader range of issues like intellectual property rights, labour, and sustainability. With much stronger intent on tariff reform, government policy must ensure that India through its FTAs navigates the fractured world of global trade.