

India's FTA imperative



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FTAs will aid India's integration with the global value-chain as a reliable supply hub—important in the post-pandemic world where businesses look for safe and cost-efficient trading routes

WHILE THE PANDEMIC has made the world realise the importance of secure and reliable supply chains, there have been concerns regarding economic self-interest and slowdown in global trade. Recovering from the pandemic, India has undertaken a slew of measures to facilitate trade with the aim of manufacturing for export and positioning itself as a global supply chain hub (PLIs, Gati Shakti master plan, faceless and paperless cargo clearance, etc.). However, realigning its policies to seek global market access by partnering with like-minded countries through FTAs is most crucial towards this aim. There are significant benefits of this realignment towards FTAs. They aid integration with global value chain as a reliable supply hub, which is important in the post-pandemic world where businesses look for safe and cost-efficient trading routes. They also provide deeper market access for Indian value-added exports for the consuming markets of the West. They ensure the removal of existing non-tariff barriers to goods and services exports with fair and reciprocal trade terms; and finally, they are important to leverage better opportunities vis-à-vis regional competitors who already have preferential access.

For example, the India-Australia Enhanced Cooperation and Trade Agreement (ECTA, to be implemented December 29, 2022) is the first FTA for India where the partner country has provided duty-free access on all commodities across tariff lines. Thus, Indian exporters will get duty-free access on 98.3% of

tariff lines with elimination of duty in the remaining 1.7% lines within five years. The duty elimination for Indian exports (currently subjected to import duty of 4-5%), coupled with regulatory facilitation like fast-track approvals of medicines, should help Indian exporters of value-added products to expand their market base in Australia. Indian manufacturers will also be able to source cheaper raw materials—such as coal, copper, cobalt, alumina, and wool—duty-free. This may result in cascading benefits like strengthening the cost-effective value addition in India for domestic consumption and further competitive exports. Additionally, this FTA also enables India's services providers to compete with their global peers by virtue of agreements in the fields of education, healthcare, financial services, and taxation.

Further, India was also conscious that the market access in real terms for certain items might be greater in the country due to its higher MFN and large consumer base, and thus many critical sectors such as dairy, wheat, rice, bajra, sugar, jewellery items, and toys have been kept in the exclusion list. In addition, India's approach has been one of reasoned liberalisation in some other products like wine, wherein minimum

import price (MIP) is the determinative factor for imports. Overall, this FTA strengthens the faith in the tenacity of Indian negotiators, working in tandem to participate in global value chains on fair and equal terms.

However, negotiators may strive hard, and the government can strategise the efforts along with policy directions, but it is only the businesses that can have a 360° view of their barriers in various geo-

Elimination of duties for Indian exports under the FTA with Australia, as also regulatory easing for drug approval can help Indian exporters expand their market base

ographies; as while tariffs are easily visible, behind the border barriers and related costs may not be. Thus, business participation in India's FTA effort is a must, especially considering that the two negotiations under progress—the UK and the EU—are even more comprehensive and with greater stakes.

To make the best of opportunities emerging from India's FTA efforts, first, businesses must make themselves aware of the changes in international trade—whether at the multilateral fora, i.e., decisions at WTO (e.g., IPR waiver, fisheries subsidies, ongoing disputes) or outcomes pertaining to environmental conferences (e.g., net zero commitments, COP-27) or through the newly inked FTAs in other geographies, especially ones affecting the trading avenues of India (e.g., the EU's FTA with Vietnam) or through unilateral trade measures (e.g.,

the EU's safeguard duty on steel). Second, policymakers must be engaged in dialogue. The sheer importance of business participation in this step can be gauged from the fact that there is nothing India cannot strive for or secure for businesses in modern deep FTAs. Securing Australia's commitment to amend the domestic law to stop taxation of offshore income of India's technical service suppliers to Australia under the ECTA is an example of this. Third, existing supply-chains must be reevaluated, as the significance of any successful FTA negotiations is the ability of businesses to make the most out of it. Thus, understanding, strategy, and action are important to work on efficient sourcing and supply strategies and to abide by sustainability commitments. All this needs to be done together for the right impact on manufacturing, services, exports as well as investment fronts. As an example, sourcing quality raw materials under one FTA for manufacturing cost-efficient products, utilising government schemes, and its supply to a consuming market accessed duty-free through another FTA, can be a great business prospect for existing entrepreneurs as well as potential investors.

While India is writing its own script in the rapidly changing international trade realignment, it is also for businesses to actively participate in this most significant trade policy effort by the government to help create jobs, transform value chains, and increase India's economic base.