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Kher: Move from FTA to product-based negotiations

Asit Ranjan Mishra, Mint

The focus should now move on from a typical and conventional free trade or preferential trade agreement-based approach to a product-based approach: Rajeev Kher

New Delhi: India should move from free trade agreement (FTA)-based negotiations towards product based-trade negotiations, commerce ministry additional secretary Rajeev Kher said on Tuesday, indicating a shifting of stance in bilateral trade negotiations.

"The focus should now move on from a typical and conventional free trade or preferential trade agreement-based approach to a product-based approach," Kher said at an event organized by the Confederation of Indian Industry lobby group.

"You identify a bilateral trading partner and you identify a particular product which has potential in that particular territory. There is a strong case for us to negotiate a non-trade regime around that product," he added. Kher said such non-tariff barriers could be in areas such as in phytosanitary measures, technical barriers to trade or in import-licensing procedures.

However, Kher added that trade negotiations with various countries and regions should reach their logical conclusion. "But I think we should move towards identified product-based diplomacy and the non-tariff regime around it," he added.

Kher said this has also become necessary as free-trade agreements have become too controversial. "FTAs have a price; as you know they are essentially trade-off agreements. We trade-off something to gain something. Therefore, they become controversial at times," he added.

In a survey conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI) last year, Impact of India-Asean FTA on Indian Industry, the industry body said duty reduction on imports from the Association of Southeast Asian Nations (Asean) region had hit India's domestic market.

According to the survey, sectors where imports were found to be increasing at a substantial pace included engineering products, processed food, textiles, garments, plantation crops and auto parts. Kerala had opposed signing of the agreement holding that the state will see millions of job losses if sectors such as rubber, fishery products, tea and edible oil were opened up for trade.

Biswajit Dhar, director general at Research and Information System for Developing Countries, said that the commerce ministry has perhaps realized India is paying a heavy price by signing so many free trade agreements and now it should be selective in its approach.

However, Dhar said it will not be possible for India to negotiate only the tariff or non-tariff regime of a product with another trading partner.

"This will be against the most-favoured nation status granted to all countries under World Trade Organisation (WTO) regulations. WTO will only allow free trade agreements that substantially cover all trade among trading partners. But two countries cannot liberalize tariff or non-tariff regime for a particular product," he said.

Speaking at the same event, junior commerce minister Jyotiraditya Scindia said India has so far singed 10 FTAs and five preferential trade agreements (PTAs) and is negotiating 16 PTAs and seven FTAs. "When completed, such agreements would cover over a hundred countries spread across five continents," he said.

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Exporters yet to realise potential of bilateral trade agreements

Nayanima Basu, Business Standard

New Delhi January 5, 2012: Benefits not encompassing, depend on sector; experts blame lack of awareness and complex procedural issues for lacklustre performance.

India has stepped up its approach in clinching bilateral trade and investment pacts over the last five years to obtain market access. But this has not really boosted merchandise exports to the partner countries, as exporters possess inadequate knowledge of the benefits of such deals.

Trade analysts and experts blame lack of awareness and complex procedural issues for the lacklustre performance.

Ten years after India started implementing its Plan B, bilateral trade agreements, to beat the impasse at the World Trade Organisation's Doha Round of liberalisation talks, the country seems to be rolling as far as inking these pacts are concerned, after a slow start.

India's approach to trade talks has also evolved since its first negotiation on an early harvest scheme with Thailand in 2004. For instance, the cloud of secrecy has given way to a consultative process, where industry associations and trade bodies are consulted and their concerns are taken on board.

However, data assessment is a problem, as the government does not keep a record of trade taking place through the bilateral vis-à-vis the general route.

According to a study by Jaipur-based think tank CUTS International, based on the commerce and industry ministry's data, India's trade with its trading partners through the bilateral agreement route stood at $163.74 billion in 2010-11, 27.46 per cent of the country's total trade of $596.20 billion.

Experts view these trade deals as having widespread geopolitical significance rather than just being mechanisms to boost trade.

"FTAs (free trade agreements), PTAs (preferential trade agreements), CECAs (comprehensive economic cooperation agreements) are still not considered to be completely an economic instrument, as these are largely governed by geo-economic considerations, with a substantial geo-strategic pursuit. Recent engagements with Korea and Japan clearly reflect such orientations, which have much to do with the changing geopolitical equations in East Asia," said Faisal Ahmed, associate director, CUTS International.

India has nine such bilateral trading arrangements with Singapore, Japan, South Korea, Malaysia, Asean (Association of Southeast Asian Nations - Thailand, Singapore, Malaysia, Vietnam, Indonesia, Laos, Cambodia, Philippines, Brunei and Myanmar), Sri Lanka, Chile, Afghanistan and Mercosur (the Latin American trade bloc — Argentina, Brazil, Uruguay and Paraguay). Besides, India also has separate two-way trade arrangements with the Asia-Pacific bloc, South Asia, Nepal, Finland, Bhutan and Thailand.

In the last three years, it has signed broad-based bilateral trade deals with South Korea, Japan, Malaysia and the 10-member Asean. These deals cover trade in goods, services and investment. Currently, it is in the process of negotiating 13 such trade pacts, significant among these being with the European Union, the South African Customs Union (SACU) and Asean for services and investment, among others.

“The reality is exporters consider all these agreements to be yet another documentation in the entire scheme of things. Barring the big companies, most Indian businessmen do not consider these deals to be an instrument to improve market access. The awareness among exporters is poor,” said Rajiv Raizada of the Export Inspection Council under the commerce and industry ministry.

FTAs are generally negotiated based on the feedback of industry chambers and associations, which forms the main basis of the negotiating text for the government. Though the commerce ministry negotiates such deals, inputs and suggestions are sought from other ministries and departments.

Despite offering a range of flexibilities and freebies, these deals had not been successful due to problems in dissemination of information such as product coverage, preferential margins and rules of origin, said Raizada.

For example, India signed a PTA with Chile in September 2007, when two-way trade stood at $2.3 billion. Instead of growing, trade with Chile declined to $2.10 billion in 2010-11.
In trade parlance, rules of origin are referred to the criteria needed to determine the source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports.

“We are not very sure about how much of the preferences are being utilised by exporters, as the data on preference utilisation is not available. Sometimes exporters don’t avail of preferential treatment because there are too many RTAs (regional trade agreements) and it’s difficult for them to assess the best option,” said Nisha Taneja, professor, Indian Council for Research on International Economic Relations.
Taneja highlighted the fact that separate bilateral agreements within a bigger trade deal made external trade more cumbersome. A case in point is India’s FTA in goods with Asean, which became operational from January 2010. Despite that, India is negotiating separately with some Asean members such as Thailand and Indonesia.

To protect the interests of the domestic industry, these agreements provide a sensitive or negative list of items on which limited or no tariff concessions are granted. Benefits from these trade and investment agreements sometimes depend from sector to sector.

According to Premal Udani, chairman of the Apparel Export Promotion Council, the apparel industry has gained a lot from the deal with Japan, as it is the world’s third-largest market for apparel, after the EU and the US. But the industry would not gain at all from the deal with Korea, since garments have not become duty free there.

Individual trade agreements are also helping India in enhancing export in sectors in which it has comparative advantages. Such deals had also helped India in integrating with the global economy, added Ahmed.

At a time when exports are feeling pressure from slowdown in some of India's traditional markets, like the US and Europe, bilateral trade deals can be utilised effectively to boost the country's merchandise exports and help India achieve its target of $500 billion in exports by 2013-14.

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