Looking outward, again

Why in news?

India has signed a CEPA with UAE the third largest trading country in recent times after the US and China.

What is Free Trade Agreement (FTA)?

- A free trade agreement is a pact between two or more nations to reduce barriers to imports and exports among them.
- Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.
- Free trade is the opposite of trade protectionism.

What are the different types of FTA?

- Different types of FTA includes
  - PTA (Preferential Trade Agreement)
  - CECA (Comprehensive Economic Cooperation Agreement)
  - CEPA (Comprehensive Economic Partnership Agreement)
  - Customs Union
  - Common Market and Economic Union
- **Preferential Trade Agreement (PTA) –** In a PTA, two or more partners agree to reduce tariffs on agreed number of tariff lines.
- The list of products on which the partners agree to reduce duty is called positive list.
- India MERCOSUR PTA is such an example. However, in general PTAs do not cover substantially all trade.
- **Free Trade Agreement (FTA) -** In FTAs, tariffs on items covering substantial bilateral trade are eliminated between the partner countries.
- However each maintains individual tariff structure for non-members. India Sri Lanka FTA is an example.
- The key 2 difference between an FTA and a PTA is
  - PTA has a positive list of products on which duty is to be reduced.
  - FTA has a negative list on which duty is not reduced or eliminated.
- Thus, compared to a PTA, FTAs are generally more ambitious in coverage of tariff lines (products) on which duty is to be reduced.
- **CECA and CEPA -** A traditional FTA focuses mainly on goods.
- CECA/CEPA is more ambitious in terms of a holistic coverage of many areas like services, investment, government procurement, disputes, integrated package on goods, along with other areas including IPR, competition etc.
- Example - India Korea CEPA.
- **Custom Union -** In a Customs union, partner countries may decide to trade at zero duty among themselves.

- However they maintain common tariffs against rest of the world.
- Example - Southern African Customs Union (SACU) amongst South Africa, Lesotho, Namibia, Botswana and Swaziland.
- European Union is also an outstanding example.
- **Common Market -** Integration provided by a Common market is one step deeper than that by a Customs Union.
- A common market is a Customs Union with provisions to facilitate free movements of labour and capital, harmonize technical standards across members etc.
- Example - European Common Market.
- **Economic Union -** Economic Union is a Common Market extended through further harmonization of fiscal/monetary policies and shared executive, judicial & legislative institutions. European Union (EU) is an example.

What are the major FTAs / PTAs/CEPAs of India?

- India has PTA, CECA, CEPA and FTA with about 54 individual countries.

Groupings	Member Countries		FTAs/PTAs
	No	Names	
Asia Pacific Trade Agreement (APTA)	5	Bangladesh, China, India, Republic of Korea, Sri Lanka.	PTA
India ASEAN Trade in Goods Agreement (India ASEAN TIG)	11	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam and India.	FTA
Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation (BIMSTEC)	7	Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal.	Under Negotiations
Global System of Trade Preferences (GSTP)	44	Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Chile, Colombia, Cuba, Democratic People's Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Iran, Iraq, Libya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Romania, Singapore, Sri Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, Tanzania, Venezuela, Viet Nam, Yugoslavia, Zimbabwe	PTA
India Brazil and South Africa (IBSA)	3	India, Brazil and South Africa.	Under Negotiations
South Asia Free Trade Agreement (SAFTA)	7	India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives	FTA
Indo Sri Lanka FTA (ISLFTA)	2	Sri Lanka, India	FTA
Indo Malaysia CECA (IMCECA)	2	Malaysia, India	CECA
India Singapore CECA (ISCECA)	2	Singapore, India	CECA

Japan India CEPA (JICEPA)	2	Japan, India	CEPA
India Korea CEPA (IKCEPA)	2	South Korea, India	CEPA

Why didn't India sign RCEP?

- India ended up on the losing side in the ASEAN FTA signed a decade ago.
- So, in 2019, India walked out of the RCEP, fearing an ASEAN-like impact.

Why India signs CEPA with UAE?

- For India, UAE is the third largest trading country after the US and China. So, CEPA with UAE is going to be a watershed.
- It aims at increase the bilateral trade from about $60 billion at present to $100 billion in five years.
- It marks a return to an outward economic orientation. The last major FTA India signed was with Japan in 2011.
- However mistakes made during ASEAN FTA have been avoided now.
- The agreement is the first in a series of FTAs that India is pursuing to boost exports sharply to 1 trillion dollars by 2030.
- India could conclude an FTA with the Gulf Cooperation Council (GCC) group of countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE) by the end of 2022.

How will the agreement boost India's export?

- India has been promised tariff free lines on 90% of its exports
- Prior to CEPA Indian textile and leather exports face a 5% duty in the UAE while our competitors like Vietnam and Bangladesh have zero duty access.
- Now zero duty is expected to boost India's labor intensive exports chiefly textiles. Gems and jewelers, pharmaceuticals, plastics, automobiles, leather and agriculture goods.
- In future it will extend to 97% of India's exports by value, covering electronics, cement and ceramics.
- With a diversified trade base, the 3.3 million diasporas, India's largest, can continue to be a robust source of remittances.

What are some of the goods excluded from the deal?

- India has excluded certain goods from the agreement through a "sensitive list" amounting to 10% of tariff lines.
- This includes Dairy, fruits, vegetables, cereals, tea, coffee, sugar, food preparations, tobacco, toys, plastics, scrap of aluminium, and copper.
- Goods manufactured through PLI schemes are also excluded.

What are key mechanisms to prevent misuse of the trade agreement through re-exports?

- Strict rules of origin are framed to prevent other countries from using the agreement to reroute their exports through UAE to benefit from lower tariffs.

- A value addition of 45% is required to qualify as having originating in India or UAE under the agreement.
- The agreement also has safeguard mechanisms that would be triggered if there was a significant surge in imports of a specific product in either country.
- In such case tariff rate quotas (a hike in tariffs after a certain quantity of imports) will be applied if needed.

Why such safeguard mechanisms are necessary?

- India ran a trade surplus with the UAE till 2018-19
- Interestingly it turned into a deficit since 2020.
- The deficit of $9 billion till October this fiscal seems like a record.
- With UAE being a re-export hub, concerns over rules of origin cannot be wished away.

What is the way ahead?

- More clarity is needed with respect to the deal's provisions on government procurement.
- The implications of throwing open public procurement to one country, on the MSME sector as well as on WTO negotiations, should be considered.
- The same holds true for IPRs and investment rules which have been outside the ambit of multilateral talks but are figuring in FTA-type deals.

Refrence

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