

FREE TRADE AGREEMENTS (FTAs): ROLE IN INDIA

* *Mr. Garule Ganesh Laxman,*

* Assistant Professor Dept. of Economics, Mula Education Society's Shri Dnyaneshwar Mahavidyalaya, Newasa, Tal –Newasa Dist.- Ahilyanagar (Maharashtra) India.

Abstract:

Free Trade Agreements (FTAs) are pivotal instruments in international economic diplomacy, enabling nations to expand market access, attract foreign investment, and enhance competitiveness. For India, a rapidly developing economy with global ambitions, FTAs have become an essential policy tool to integrate more deeply into global value chains and enhance exports. This paper explores the evolution, scope, and role of FTAs in India's trade strategy, assesses their economic impact, identifies challenges, and discusses the future trajectory of India's trade policy. Drawing upon data from government sources, international organizations, and recent trade negotiations, the paper highlights both the opportunities and constraints facing India in leveraging FTAs for sustainable economic growth.

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1. Introduction:

Globalization has reshaped international trade dynamics, with nations seeking bilateral and multilateral mechanisms to reduce trade barriers and promote economic cooperation. Free Trade Agreements (FTAs) — arrangements that eliminate tariffs and non-tariff barriers among member countries — have emerged as key instruments for enhancing trade competitiveness and integration into global markets.

For India, a nation characterized by its large domestic market, demographic dividend, and diverse industrial base, FTAs play a critical role in realizing its trade potential. Since the early 1990s, following the liberalization of the Indian economy, the country has increasingly turned to FTAs as a means of promoting exports, attracting foreign direct investment (FDI), and strengthening geopolitical ties.

This paper examines the historical evolution and current role of FTAs in India's trade strategy, evaluating their economic outcomes, sectoral implications, and future prospects in a rapidly changing global trade environment.

2. Conceptual Framework of Free Trade Agreements:

A **Free Trade Agreement (FTA)** is a pact between two or more countries to reduce or eliminate barriers to trade in goods and services. Unlike customs unions or common markets, FTAs do not require a unified external tariff or deeper political integration. Instead, each member country maintains its trade policies with non-members.

FTAs typically cover:

- Trade in goods and services
- Investment provisions
- Intellectual property rights
- Dispute settlement mechanisms
- Rules of origin to determine eligibility for preferential treatment

FTAs can be **bilateral**, involving two countries (e.g., India–Japan CEPA), or **regional/multilateral**, involving multiple partners (e.g., ASEAN–India FTA). The World Trade Organization (WTO) allows such agreements under Article XXIV of GATT, provided they cover “substantially all trade.”

3. Evolution of India’s FTA Policy:

1. Early Phase (1990–2000):

The 1991 economic reforms marked a paradigm shift in India’s trade policy from import substitution to export promotion. India’s early FTAs were largely limited to neighbouring countries under the South Asian Association for Regional Cooperation (SAARC). The **South Asian Preferential Trading Arrangement (SAPTA)** in 1993 and its successor, the **South Asian Free Trade Area (SAFTA)** in 2006, were India’s initial steps toward regional integration.

2. Expansion Phase (2000–2014):

During the early 2000s, India adopted the “Look East Policy,” seeking closer ties with Southeast and East Asian economies. This phase witnessed a surge in comprehensive FTAs, including:

- **India–ASEAN FTA (2010):**
- **India–Singapore Comprehensive Economic Cooperation Agreement (CECA, 2005)**
- **India–Japan Comprehensive Economic Partnership Agreement (CEPA, 2011)**
- **India–South Korea CEPA (2010)**
- **India–Malaysia CECA (2011):**

These agreements aimed to enhance trade flows, attract investment, and strengthen strategic ties with Asia-Pacific economies.

3. Recent Phase (2015–Present):

India’s recent trade policy reflects greater caution in FTA negotiations. After withdrawing from the **Regional Comprehensive Economic Partnership (RCEP)** in 2019 due to concerns about domestic industry exposure, India began recalibrating its FTA approach under the “Atmanirbhar Bharat” (Self-Reliant India) initiative.

Recent FTAs include:

- **India–UAE Comprehensive Economic Partnership Agreement (CEPA, 2022)**
- **India–Australia Economic Cooperation and Trade Agreement (ECTA, 2022)**

Ongoing negotiations are underway with the **United Kingdom, Canada, and the European Union.**

This new phase emphasizes balanced, mutually beneficial agreements with stronger safeguards for domestic industries.

4. Role and Impact of FTAs in India:

1. Trade Expansion and Market Access:

FTAs have contributed significantly to expanding India's trade network. Between 2000 and 2023, India's merchandise trade increased more than sixfold, with FTA partners accounting for approximately **35–40% of total trade**. The **India–ASEAN FTA** boosted bilateral trade from **US\$44 billion in 2009–10 to over US\$110 billion in 2022–23**. Similarly, trade with Japan and South Korea has grown steadily, facilitated by tariff reductions on key products such as automobiles, pharmaceuticals, and chemicals.

2. Foreign Direct Investment (FDI) Inflows:

Comprehensive FTAs, particularly those with developed economies, have facilitated higher FDI inflows. For example, Japan's FDI in India rose significantly after the **India–Japan CEPA**, leading to investments in infrastructure, automobiles (Maruti Suzuki), and industrial corridors (Delhi–Mumbai Industrial Corridor). The UAE–India CEPA has also positioned India as a manufacturing and re-export hub, particularly for gems, jewelry, and petrochemical sectors.

3. Strengthening Strategic and Geopolitical Ties:

FTAs serve as diplomatic tools that complement India's foreign policy. Agreements with Japan and Australia, both part of the Quad alliance, reflect India's strategic pivot toward the Indo-Pacific region. Similarly, the UAE and Gulf FTAs enhance India's engagement with West Asia, ensuring energy security and labour mobility.

4. Integration into Global Value Chains (GVCs):

By liberalizing trade and investment regimes, FTAs enable Indian firms to integrate into **global value chains**, especially in electronics, textiles, and automobiles. The **India–Singapore CECA**, for instance, has allowed Indian IT and financial services firms to operate seamlessly in Southeast Asian markets. These linkages promote technology transfer, skill development, and export diversification.

5. Challenges and Criticisms:

Despite notable achievements, India's FTAs have faced several challenges.

1. Trade Deficits with FTA Partners:

India has experienced persistent trade deficits with many FTA partners, notably ASEAN, Japan, and South Korea. For example, India's trade deficit with ASEAN rose from **US\$5 billion in 2010 to over US\$40 billion in 2023**.

Critics argue that while tariff reductions benefited partner countries' exports to India, Indian firms have struggled to gain reciprocal market access due to non-tariff barriers and lack of competitiveness.

2. Utilization Rates of FTAs:

The **utilization rate** of FTAs by Indian exporters remains low — estimated between **15% and 25%** — primarily due to complex rules of origin, cumbersome documentation, and lack of awareness among small

and medium enterprises (SMEs). Many exporters find it easier to trade under normal Most-Favoured Nation (MFN) tariffs rather than navigate preferential FTA procedures.

3. Domestic Industrial Concerns:

Sectors such as agriculture, textiles, and small-scale manufacturing fear adverse effects from cheap imports, particularly from China through ASEAN intermediaries. This concern was a major factor in India's withdrawal from the **RCEP** negotiations. Additionally, domestic industries often lack technological sophistication to compete with advanced economies in high-value sectors.

4. Institutional and Negotiation Capacity:

India's negotiation capacity and post-agreement implementation mechanisms require strengthening. Unlike developed economies, India lacks a dedicated, well-resourced trade negotiation agency capable of ensuring coherence across ministries and stakeholder groups.

6. Case Studies:

1. India–Japan CEPA (2011):

This agreement eliminated tariffs on **94% of trade items** over a decade. It enhanced Japanese investment in India's automobile and infrastructure sectors. However, Indian exports, mainly agricultural and generic pharmaceuticals, faced regulatory barriers in Japan, limiting potential gains. Overall, while FDI inflows rose, trade balance remained in Japan's Favor.

2. India–ASEAN FTA (2010):

Intended to boost regional integration, the India–ASEAN FTA increased trade volume but led to significant import surges in palm oil, electronic goods, and machinery. This widened India's trade deficit with ASEAN nations.

Nevertheless, the FTA also encouraged Indian participation in regional production networks, especially in automotive components.

3. India–UAE CEPA (2022):

The CEPA represents a new-generation FTA model. It aims to increase bilateral trade to **US\$100 billion by 2027**. Within one year of implementation, trade rose by over **15%**, driven by tariff concessions and simplified customs procedures. The agreement also includes provisions for **digital trade, investment promotion, and MSME collaboration**, signaling a more modern and comprehensive approach.

7. Future Outlook and Policy Recommendations:

1. Balancing Openness with Domestic Protection:

India must strike a balance between promoting exports and safeguarding domestic industries. Future FTAs should include **robust safeguard clauses** against import surges and provide **transitional support** for vulnerable sectors.

2. Enhancing FTA Utilization:

Improving **awareness, digital documentation, and customs facilitation** can enhance FTA utilization among exporters. Creating an online **FTA helpdesk** and regional trade facilitation centers can support SMEs.

3. Strengthening Negotiation and Review Mechanisms: -

Establishing a **dedicated Trade Policy Authority** can ensure better coordination and evidence-based negotiation strategies. Periodic **impact assessments** should be mandated to monitor economic outcomes and renegotiate terms where necessary.

4. Leveraging FTAs for GVC Integration: -

India should focus on FTAs that enable participation in high-technology value chains, such as **electronics, semiconductors, green technologies, and pharmaceuticals**. Partnerships with the EU, UK, and Canada could open access to advanced markets and innovation ecosystems.

5. Sustainable and Inclusive Trade: -

Future FTAs must align with India's climate and sustainability goals by including provisions on **renewable energy cooperation, labour standards, and environmental protection**. Encouraging women-led and MSME exports through FTA-linked capacity-building programs can make trade more inclusive.

8. Conclusion:

Free Trade Agreements have played a significant role in shaping India's trade and economic landscape. They have facilitated market diversification, increased FDI inflows, and strengthened India's global standing. However, their overall impact has been uneven due to structural inefficiencies, low utilization, and persistent trade deficits.

The evolving global trade environment characterized by supply chain realignment, digitalization, and geopolitical uncertainty presents both challenges and opportunities. India's new generation of FTAs, such as those with the UAE and Australia, signal a pragmatic shift toward outcome-oriented and balanced agreements.

Going forward, India's success will depend on how effectively it leverages FTAs to integrate into global value chains, promote domestic manufacturing under *Atmanirbhar Bharat*, and achieve sustainable, inclusive economic growth. With strategic planning, institutional reform, and sectoral competitiveness, FTAs can serve as a powerful engine of India's 21st-century economic diplomacy.

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