

Mega Regional Trade Agreements and their Impacts on the Indian Economy

Background Note

Mega regional trade agreements, which are being negotiated, such as the Trans-Pacific Partnership, the Trans-Atlantic Trade and Investment Partnership, are expected to have some significant impacts on the Indian economy. If concluded, while their short-term impacts, in respect to India's access to the markets of those countries, will be mostly felt on specific sectors such as textiles, agriculture and processed food items, automobile components, long-term challenges will lie in how India's trade regime will get itself adapted with high level of trade-related regulatory standards that these agreements are expected to set. Also and as trade in goods and services, foreign direct investment and technology transfer are getting more and more inter-linked, in the medium-term, these mega regionals are expected to pose some challenges to India's inward as well as outward foreign direct investment.

Together, the countries that are partaking in these negotiations account for more than 40 per cent of India's exports and imports. Given this high level of trade dependency, possible trade diversion from India to those trading partners can have severe ramifications on our economy. More importantly, they are premised on an underlying objective to rework the operational aspects of international trade through new sets of standards and intellectual property rights, and by exploring new issues such as relations between trade and competition policy, trade-related aspects of public procurement.

Therefore, this emerging scenario, and challenges therein, necessitates an analysis of possible implications of these mega regionals on the Indian economy, and possible and corresponding domestic measures that need to be formulated by India's trade establishment to assuage their impacts.

This project, supported under DFID-India's Knowledge Partnership Programme, undertakes such analyses, and will use its results to advocate for an appropriate trade policy regime that can significantly mitigate their possible negative impacts on the Indian economy and help India's trade establishment to adapt itself to future trade scenarios.

By using quantitative and qualitative tools, it has assessed the degree of exposure of the Indian economy to these mega regionals and expected level of trade diversion. Particular attention has been paid to trade diversion expected to be faced by threatened sectors that are relatively more sensitive to employment generation and poverty reduction, and how that could disparage our developmental concerns. Furthermore, our study predicates that these mega regionals can potentially handicap India's efforts to get integrated into global value chains unless we utilise them as a window of opportunity for domestic reforms in trade-related rules and regulations.

This event will deliberate on how expected challenges can be converted into a window of opportunity for ushering the Indian economy into a relatively long phase of sustained growth by reforming and optimising our trade-related regulatory framework. It would provide inputs to India's negotiations of new generation free trade agreements, especially the Regional Comprehensive Economic Partnership in Asia and the Pacific, which is another mega regional in which India is a party along with the 10-member ASEAN group of countries and Australia, China, Japan, New Zealand and South Korea.