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Strategy for India's External Sector Sustainability

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Strategy for India's External Sector Sustainability

Abstract

The global trade regime has undergone significant changes in recent years. The emergence of BRICS and growth of other developing countries has created a multipolar world, immensely increasing competition in world markets. There is a demand by many, particularly the developed economies, to create a 21st century template for trade and investment rules. With slow and tardy movement in the WTO negotiations, the focus has shifted to bilateral or multilateral agreements such as the Trans-Pacific Partnership (TPP),[1] the Trans-Atlantic Trade and Investment Partnership (TTIP)[2] negotiations and the Regional Cooperation Economic Partnership (RCEP),[3] which together account for nearly three-quarters of global trade. The main focus is on non-tariff measures, and the results of these negotiations will lead to a rise in technical standards and other onerous conditions for market access. Recognising this, China has begun to modify its own regime to meet the eventual higher standards. But China as of now is nowhere close to meeting the demands of multilateral agreements like the TPP.

These eventual high standards in markets covering two-thirds of world trade will mean that India, which is not a part of the TPP, will find it difficult to access the bulk of global markets unless its domestic capacity and standards improve. This would also make it difficult for India to sustain or increase its growth rate. Government officials and

policymakers in India need to be sensitised about these likely changes, and linked up with experts who can help upgrade domestic standards and systems. In terms of sectoral market shares, with the enactment of the TPP, RCEP and TTIP, India stands to lose out to Southeast Asian economies like Malaysia and Philippines in the services sector, which drove much of India's recent growth, and in which India competes with these economies for market share. The manufacturing sector will also be hit in different ways.

Against this backdrop, this study attempts to develop a strategy to deal with the adverse impact of mega free trade agreements (FTAs) like TPP and TTIP, and thereby safeguard India's trade and sustain its economic growth. The study suggests reform measures that India needs to take to negotiate membership of these mega FTAs in the near future and deal with their trade diversion effects.

Introduction

While the relationship between trade and economic growth remains ambiguous and inconclusive,[4&5] it is common knowledge that when countries enter into an FTA, trade is diverted away from non-FTA members. What is also established is that FTAs per se have a strong positive impact on the economic growth of member states.[6] In an era of globalisation, FTAs have grown in number in the past two decades. In the backdrop of the stalled Doha development round—and an ensuing question mark on the future of multilateralism—there has been a proliferation of regional trade agreements (RTAs). The WTO notifies that as of 15 June 2014, 379 RTAs were in force. In short, free trade and agreements governing free trade are far from new in an era of internationalism.

Although the WTO trade facilitation deal has been signed after much delay and confusion, the US-inspired TPP and TTIP, and the China-led RCEP continue to cast doubts on the future of multilateral trading systems like the WTO. India on its part has of late been increasingly engaging with regional and bilateral arrangements, which seem to be an easier route to favourable deals with other developing countries.

Since the liberalisation process began in 1991, India has integrated itself into the global economy in steps. Barriers to trade have fallen and so have limits on FDI. Tariffs have gone down from around 79 percent to 16 percent over the past one-and-a-half decades, much of it between 1990 and 1997.[7] Exports have been promoted by various policy measures. As a result, India's share of world trade rose in the past two decades to 2.07 percent in 2013, up from 1.31 percent seven years earlier. To enable a common market for seamless goods and services trade, FTAs have been signed with consistent frequency. But free trade pacts are relatively new for India.

India's first FTA with Sri Lanka, considered to be one of the more successful ones, became operational in 2000. India has since signed FTAs with many of its Asian counterparts, including high-volume ones like the FTA between India and the Association of Southeast Asian Nations (ASEAN), the South Asian FTA (SAFTA) between SAARC nations and the Bay of Bengal Initiative for Multi-Sector Technical and Economic Cooperation (BIMSTEC). It has bilateral FTAs with countries as varied as Malaysia and Japan. However, India still lags behind China and a few other developing countries when it comes to trade openness. For example, tariffs on intermediate inputs and capital goods, though lower than before, are still high compared to those of other emerging countries, notably the other BRICS nations. Further, while India's trade openness ratio[8] stood at 27 percent in 2000, rising to 50.7 percent in 2008, China's rose from 44 percent to 65 percent during the same period.[9]

In terms of FDI, India is one of the most attractive destinations given its huge market and associated reforms in various sectors. As inward FDI is also a function of trade openness, there is a case for India to further open up trade, while calibrating the needs of sensitive sectors and of livelihoods.

As of 2011, India's trade with its FTA partners was around 40 percent of its total trade. The role of FTAs in broadening India's trade ambit is now recognised. Considering India is a service-oriented economy today, it is important to note that many of India's FTAs have included provisions on freeing up services trade, as well as investment. But the India-ASEAN services-specific FTA is currently in limbo, mainly over retail FDI policies at home.

Concerns about India's trade imbalance, particularly in the manufacturing sector, which has failed to take advantage of the preferential market access, remain. Because of this, hasty signing of more FTAs will do India more harm than good. On the other hand, it is also argued that there is a need for faster integration with the global economy and rejection of protectionist policies—and mega FTAs like the TPP, RCEP and TTIP will allow faster integration with the world economy. The TPP is big and commands massive numbers. One-third of world trade happens in the TPP region and it is arguably the most advanced trade deal, particularly where services are concerned. The RCEP, although moderate in aim, is big in numbers too, as it comprises almost the same members as those of Asia-Pacific Economic Cooperation, along with India.

Against this backdrop, this paper discusses the implications of this changing global trade regime on the Indian economy. The first section briefly examines India's current FTA commitments. The second section provides updates on the nature and status of the mega FTAs—TPP, RCEP and TTIP—and India's engagement with each. The third section focuses on some of the key elements in the TPP and its possible effects on Indian trade. Finally, the paper explores at length the implications of these three mega FTAs on Indian trade, followed by a conclusion which considers the strategy for India's external sector, and what is best suited for India, given the inevitability of the growing FTA culture, be it bilateral or multilateral.

India's FTA/RTA Commitments: Overview and Impact

India has till date signed FTAs with 20 countries or groups of countries, including some big deals with Japan, Korea, Malaysia and the ASEAN.

Negotiations are ongoing with a few more nations, including Australia, New Zealand and Canada, and with the EU. By 2011, 11 FTAs had been implemented, with 20 agreements still under different stages of negotiation.[10] India's exports have benefitted from FTAs. With SAFTA, India has posted a commendable trade surplus of $12 billion. With ASEAN also, imports have doubled after signing of the Indo-ASEAN Trade in Goods Agreement. India's imports from this region comprise chiefly petroleum products and edible oil.

In the subcontinent, India is part of SAFTA (with Bangladesh, Bhutan, Maldives, Nepal and Pakistan) and BIMSTEC (with Bangladesh, Myanmar, Sri Lanka and Thailand). Total SAFTA and BIMSTEC trade constitute about 1.5 percent and two to three percent of total world trade, respectively.[11] This is marginal, but provides India with the leeway to export more to its neighbours, while reducing its dependence on the EU and North American Free Trade Agreement (NAFTA) regions. The EU and US markets still get a substantial share of Indian exports, but this share is falling. The share of Asia and ASEAN in India's total trade increased from 33.3 percent in 2000-01 to 57.3 percent in the first half of 2011-12, while that of Europe and North America fell from 42.5 percent to 30.8 percent.[12] Even so, the 2011 Economic Survey of India acknowledged that "while India has made major strides in its diversification of export markets, a lot needs to be done to not only diversify the export basket but also have a perceptible share in the top items of world trade."

In line with its Look East Policy, India has concluded a host of FTAs with individual East Asian countries and with ASEAN as a whole. These include the India-Singapore Comprehensive Economic Cooperation Agreement (2005), India-Malaysia FTA (2011), India-Thailand FTA

(2003), ASEAN-India FTA (2009) and India-South Korea Comprehensive Economic Partnership Agreement (2009). In 2011, India and Japan also signed an FTA. Before that deal was finalised, by using the SMART and GTAP models, it was found that the FTA would potentially increase bilateral trade, although Japan's gains, both in revenue and welfare, would be higher.[13] Many of India's FTAs are recent and it is perhaps too early to quantify gains registered solely as a result of these FTAs. While most are likely to both increase trade volumes and broaden the ambit of trade while creating jobs, some negative effects in welfare and employment, mostly short-term, are not ruled out. For example, following the Indo-Malaysian FTA in 2011, imports from Malaysia grew 9 percent in 2012-13, much faster than exports to Malaysia. Likewise, exports to Japan decreased while imports rose significantly, following the FTA in 2011.[14] These setbacks are mainly on account of imbalances arising out of market access issues and non-tariff barriers in host countries. The Indian government needs to deal with these factors all the more so while negotiating mega trade deals like TPP and RCEP.

The CEPA with South Korea and the agreement with ASEAN have been designed to enable enhanced market access for several items of Indian exports.[15] To further diversify India's exports, the MERCOSUR[16] Preferential Trade Agreement (PTA) came into effect in 2009. The 452-strong offer list of products under the agreement includes organic chemicals, pharmaceuticals, essential oils, plastics and plastic articles, rubber and rubber products, tools and implements, machinery items, electrical machinery and equipment.[17] India has an export edge in nearly all of these products, and they already figure high in its global export basket. Negotiations meanwhile on the India-EU free trade agreement, which is going to be big in terms of volume of trade, are stuck over differences on a range of issues.

Gains for India's trade on account of its FTAs have been quantified by a few studies. Sikdar and Nag[18] find that post the Indo-ASEAN FTA, India's exports to ASEAN have increased substantially, with the largest accesses gained in Thailand, Cambodia, Vietnam, Malaysia, the Philippines and the Lao People's Democratic Republic. In addition, although imports have increased more than exports from India, the gross domestic output has also increased.

This is not to say that FTAs alone are to blame for the surge in imports to India. India's manufacturing sector faces huge competition, particularly from Japan, South Korea and ASEAN. Most of the imports, however, from the countries with which India already has an FTA/PTA come through the Most Favoured Nation route, and not through the preferential route. The commerce department's analysis says, for instance, that only 22 percent of imports from Japan are through the FTA route. The figures for South Korea, ASEAN and Malaysia are 21 percent, 17 percent and 3.47 percent, respectively.

All the same, to boost India's manufacturing sector, there is a need for faster integration with the global economy and rejection of counterproductive protectionist policies. Being linked to mega FTAs like the TPP, RCEP and TTIP will allow faster integration with the world economy.

India's Trade Engagement with Mega FTAs

The US-inspired TPP negotiations with the Asia-Pacific economies seeks to deepen economic integration among the 12 countries of the region—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the US, which is playing the leadership role in the ongoing talks. The TPP is geographically inclusive and extends to ASEAN and NAFTA countries. There are reports that China too is considering joining the TPP, although it remains to be seen how China will meet the standards to do so. India has also been urged to join the talks. After Japan joined last year, India and China remain the only two big economies of the region that are not part of the talks. With many other Asian countries indicating their intention to join the group in the foreseeable future, including South Korea and Thailand, the TPP is staring at India from its own backyard. Japan's decision to join the talks is significant, as Japan has traditionally been extremely protective of its farm and non-farm sectors, which it will now have to open up. In such a scenario, it will be difficult for India to avoid being marginalised in the trade rule-making process if it continues to stay out of the TPP talks.

The TPP covers about 40 percent of global GDP and nearly a third of world trade. In their assessment of the economic impact of TPP, Petri and Plummer[19] find that the enforcement of the TPP could yield annual income gains of $295 billion, including $78 billion in the US alone. It could also unleash potential gains of as much as around $1.9 trillion in the Asia Pacific through free trade. One-third of US gains are likely to come through investment provisions of the TPP. This is not surprising, as capital flows to and from the US will inevitably rise in view of US-led investment regulation harmonisation within the aegis of TPP. The study further finds that Vietnam is expected to gain 14 percent under the TPP since it would become a hub of low-end manufactured goods like textiles and garments. Likewise, service exports are going to lead to higher export growth figures in the US. Japan will experience a two percent hike in its GDP and an increase in trade volume to the tune of $340 billion. Todo[20] considers the possibility that these figures are exaggerated, but nonetheless concludes that the TPP will substantially add to Japan's

GDP, and any addition is welcome given Japan's economy grew at less than one percent in the past two decades. In short, the benefits of the TPP in terms of trade and investment growth—as well as overall economic growth—have been established by the literature on the subject, however limited due to its topical nature.[21] All these factors may spell trouble for India: In essence, the impact on India will be in the form of trade diversion leading to falling exports, industrial slowdown and rising unemployment. Exactly how some of these factors are likely to take shape are dealt with later in the paper.

After demonstrating through TPP its increasing engagement with Asia, and giving a much-needed fillip to the grouping which initially had only four members, the US announced a second mega FTA with the EU in 2013—the TTIP. Once seen as a trade rival, the EU is now ready to make concessions to reach a trade deal with the US. This FTA, projected as the biggest FTA till date, will prove immensely consequential for world trade. This is because the TTIP is not simply about lowering tariffs between the US and the EU to expand trade. The deal notably proposes to discuss and resolve new issues in global trade related to quality standards, intellectual property rights (IPR), rules of origin, competition policy, labour and environment, etc., as opposed to the traditional issue of tariff reduction. Since standards in both the EU and the US are already high, the deal will entail balanced liberalisation by both sides. The deal, when it is concluded in 2015, will account for about 40 percent of global GDP, 30 percent of world trade in goods and services, and will add more than two million American and EU jobs, as per estimates.

In addition, the negotiations on EU-India Broad-based Trade and Investment Agreement are going through a difficult phase. This is a cause of worry for India, since the TPP and the TTIP—geostrategic alliances discussed in total secrecy—are already aimed at concentrating economic powers and moving trade routes from multilateral forums to regional/bilateral ones. However, talks on both the TPP and the TTIP have been inconclusive so far, as the viewpoints of such a diverse set of countries are difficult to synchronise in both arrangements. The negotiations have been continuing for many years now, with IPR and internet freedom being the main sticking points in both deals.

The Trade Promotion Authority (TPA, commonly known as the fast-track authority), which allows the US President to negotiate international trade agreements—bypassing the US Congress nitpicking every detail of an agreement—holds the key to TPP's success.[22] A major portion of American exports are purchased by its free trading partners. If the TPA can push through the TPP and TTIP, it would mean another 33 countries becoming free trade partners of the US—thus boosting its exports further. The benefits of the TTIP are all the more visible, providing an opportunity for the US to expand its trade relationship with its largest trading partner, the 28-member strong EU.

There are now calls to re-authorise the TPA, as without this authority there are chances that the TPP and TTIP might not clear the ratification phase. It is significant that TPP negotiations got a new lease of life and came to prominence only after the US joined the negotiations in 2008. It is the US that is steering the negotiations, representing its intention to expand its presence in Asia. The TPA gains relevance here, as it would strategically help the US in shaping the international trade agreements with other countries. It could potentially be used to execute structural reforms in domestic markets of other economies.

Table 1: Trade Share of Mega FTAs

Mega FTA	% share in world GDP	% share of exports in world trade	% share of imports in world trade	% share of India's imports	% share of India's exports
TPP	38.42	31.4	39.86	18.98	23.03
TTIP	45.09	40.28	44.42	24.65	31.27
RCEP	38.46	30	29		

Source: *CUTS International*

Meanwhile, the Sino-centric RCEP, the FTA between the ASEAN members and their FTA partners, is one mega FTA where India is a founding member and is actively involved in negotiations. The RCEP economies account for just under a quarter of world GDP and 28 percent of world trade—not small by any means. The initiative will cover more than half of the world's population when it is launched in 2015. It is a counterbalancing set of trade talks led by China, involving the same set of Asia Pacific member states as the TPP. It might lead to greater gains in trade volumes, because the existing barriers to trade are high and RCEP's focus is on traditional methods of facilitating trade like lowering tariffs and duties. This is in contrast to the TPP, where it is suspected that the benefits will not be particularly dramatic, as tariffs are already quite low under existing FTAs.[23] Further, while the TPP proposes a WTO-plus platform, the RCEP allows for bilateral arrangements among member countries.

However, India has reservations vis-à-vis the RCEP too. For instance, with China at the heart of RCEP, it might be difficult for India to agree to tariff cuts, as India has always been hesitant to sign an FTA with China for fear of cheap Chinese goods flooding its market and out-competing indigenous manufacturers. Already, India faces stiff competition from China in sectors like pharmaceuticals, automotive and food processing.

On the other hand, the RCEP could be good news for India because it could widen prospects for Indian service sector exporters. Market access and tariff reductions will obviously be going through tough negotiations in the days ahead. But due to the flexibility allowed in the RCEP, countries can reduce barriers at different rates and at their own pace. The legroom offered by the RCEP makes it an obvious and natural choice for India, and also because it does not preclude India's entry into the TPP.

Furthermore, India has already concluded and successfully operationalised an FTA with ASEAN in goods. The group gives it an opportunity to widen its access to the bigger markets in the region. With its focus on goods, services, investment and technical cooperation, India would be more comfortable engaging with the RCEP than with the TPP given the latter's next-generation rules on non-trade issues like labour, environment and IPR. Another reason India has been more keen on the RCEP than the TPP is that India already has FTAs with some of the RCEP countries, including Japan and South Korea.

Key Elements in the TPP that Pose Threats to India

The threat posed to non-members by the Trans-Pacific Partnership is substantial because it is much more than a free trade agreement. It is by far the most ambitious of all such pacts. Called the trade deal of the 21st century, the TPP's ambitions involve not only expanding trade but also setting in motion a new standard for global trade. The defining features of the agreement could lead to tougher labour, environment and IPR standards, while harmonising complex trade issues of tariffs, quotas and regulations. The TPP currently has 29 chapters under negotiations. These include easing flow of capital between member states and harmonising regulations among them. Strict enforcement of regulations is also expected, and so is a revision of the existing WTO-mandated trade architecture. Tariffs and non-tariff barriers are going to fall incrementally and the rule-based architecture will not just encourage, but will require high standards of production. As for investment, foreign investors will get nondiscriminatory treatment and also obtain access to government contracts in host countries. Trade liberalisation has long been dropped from the agenda of the Doha talks. The consensus-driven nature of WTO makes it almost impossible to reach a breakthrough on matters such as high-standards of labour, environment, investment, state-owned enterprises, supply chains and government procurement. This is prompting the US to push the issues through parallel negotiations under the TPP.

Although India is not a member of TPP, a careful examination of the key elements being discussed becomes necessary, considering the detrimental effects of not becoming a part of the deal. The sheer numbers involved in this mega trade deal indicate trouble for developing countries like India. The FTA will cover 40 percent of the world economy. The participating countries are the biggest trade partners of the US. Further, the TPP will account for 40 percent of the US's total exports and imports. A similar number will represent its trade with the TTIP countries. Together the two deals will account for 60 percent of world GDP. Considering these numbers, it is likely that the stringent rules negotiated in the two deals will ultimately be advanced on a global scale.

While not much is in the public domain, given the secrecy of the negotiations, it is known that TPP seeks to institutionalise certain labour standards. Participating countries are discussing the possibility of a chapter on enforceable labour rights in the agreement. They argue that raising labour standards will eventually help reduce barriers, as the streamlining of rules will give way to a high-standard framework for labour practices and rights around the world. Calls for commitment on protection of labour rights have grown louder after the tragic factory collapse in Bangladesh in 2013, in which 1,129 people were killed.

The problem for India is that its woefully inadequate labour norms will not allow it to engage with the TPP, even if it wanted to join the talks. Child labour and forced labour are still widespread in India. Poor safety standards, inadequate wage structures and long working hours are the reasons why it will take a great deal of work before India can consider negotiating with the TPP, despite its economic potential. This also runs contrary to India's priorities back home, as stringent labour laws have often been blamed for lack of private investment (foreign and domestic) in the manufacturing sector. Indeed, working hours in some cases have actually been increased in the Narendra Modi government's labour reforms to attract capital.[24]

In the TPP, environmental standards of the highest order are also being negotiated. There are talks to include provisions on enforcement of environmental laws, including the multilateral environmental agreements. This has implications for the TPP countries as well as for non-TPP countries like India. Not all TPP countries have acceded to the different existing multilateral environmental agreements (MEAs), but ratifying the TPP will compel them to eventually accede to them. Moreover, the TPP dispute settlement mechanism will appoint a panel to decide if a party has failed to implement its environmental expectations under an MEA. This raises concerns as the MEAs themselves lack such dispute settlement systems today. There is a clear attempt here to link trade and environment. Similar attempts are being made at the WTO in the Doha Development Agenda, where talks are being burdened with non-development issues. Such attempts so far have been thwarted by the developing countries.

The strongest objections concern the aggressive stance of the US on protection of intellectual property rights, which will allow intellectual property to be monopolised by a few corporations. It bases its view on encouraging innovation. This would, however, lead to inaccessibility of affordable medicines, particularly for developing countries like India. Not only would it make it difficult for generic drug makers, it will also restrict free flow of information and knowledge. The TRIPS Agreement already seeks to actively protect intellectual property rights, the dominant players in this area being the technologically advanced countries like the US. India is part of the TRIPS Agreement.

Further, it has been urged that the TPP should strengthen the Rules of Origin, with specific origin rules on sensitive sectors like farm products and textiles, so that only the TPP countries get the benefit of market access.

Linking trade with labour, environment and IPR would mean more stringent WTO rules. With its less sophisticated labour practices, environmental and IPR standards, and a weak trade infrastructure, India will struggle to accommodate these progressive rules negotiated under the TPP and TTIP by the developed countries. As such, India had even blocked the WTO Trade Facilitation Agreement, which sought to streamline customs procedures, simplify transit rules, expedite shipment procedures and reduce documentation, among other things, before finally giving it a nod in the aftermath of the Brisbane G20 meeting.

For India, joining the TPP may mean making some serious compromises. Labour, environment and IPR are all non-trade issues, and imposing higher labour and environment standards and IPR protection would, by all means, arrest growth in an emerging economy like India. Adhering to some of the requirements will be tough and may involve changes to domestic legislation. All in all, the TPP is highly ambitious and arguably favourable to developed countries. Partly due to the fact that the TPP will require labour and environmental standards far in excess of WTO requirements, it will be anti-developing countries. It has been suggested that membership of the TPP should be open to all countries willing to make trade concessions, but agreeing to all provisions of the TPP should not be a precondition for joining the same.[25] Besides, these deals do not have the provision of special and differential treatment for developing countries.

The rise of the TPP and TTIP indicates a reversal of sorts of the little success made on multilateralism and democracy in global trade issues with the coming into force of the WTO. The control of the global trading system had merely begun to slip from the clutches of the US-led West, when the announcements of the US-centric mega FTAs gripped the attention of the world. However, sooner or later India will have to take a call on embracing trade liberalisation; otherwise it faces the risk of trade isolation. Acceding to the TPP might not be the best option for India, but without an active engagement with this mega grouping, it might become even more difficult to fulfill its global trade ambitions. A comprehensive study by the Indian Department of Commerce itself accepts that unless the second-generation reforms on tax structures, labour laws and infrastructural reforms are urgently ushered in, Indian exports will continue to be uncompetitive.

Implications of Mega FTAs for India

What potential negative repercussions can TPP have on India? Most of the negative impact will be on the trade front; given that trade made up roughly 53 percent of Indian GDP as of 2012, this will deal a blow to its economic growth prospects if New Delhi stays out of the agreement. For one, India's services exporters could be hit.

India has a service-based economy and has a comparative advantage in (relatively) low-cost skilled workers. Almost 60 percent of its GDP is accounted for by the services industry. This tertiary economic sector gets a fair share of FDI too. But with the TPP excluding India, FDI could move to those countries that are part of the TPP, because they will have an investment pact that encourages and incentivises foreign investment. Regulatory harmonisation between nations is also part of the TPP, which envisages multinational corporations not having to deal with divergent sets of laws. This is a concern in India because its legislation is not particularly aligned with global standards. Depending on the nature of concessions offered to TPP members, India could see a loss of global market share in the IT and IT-enabled services sector, the sectors that drove much of its GDP growth until 2008.[26] Trade literature has not quantified the potential losses that could accrue to India but legitimate fears remain. India is already facing stiff competition in outsourcing from countries like Philippines, Indonesia and Malaysia. The latter, with the help of the TPP, can develop a strong hold on the global services industry. Furthermore, wide-ranging tariff cuts under the TPP in the services sector will also pose a challenge for India if it were to be part of the TPP. Compared to the OECD countries as well as other developing countries, India is substantially restrictive when it comes to the services sector as far as tariffs are concerned.[27&28]

Merchandise exports too will not be exempt from the destructive impact of the TPP. India's textile sector, for instance, will be badly hit when the TPP comes into effect. As a non-TPP nation, India will be at a disadvantage against other textile manufacturers who are part of the agreement, notably Vietnam, and who will get a preferential treatment in the US market. With the US alone accounting for 30 percent of India's readymade garment exports, it would be a big blow indeed.[29] This will apply to all other sectors in which India has an advantage. Vietnam, as Petri and Plummer[30] find, will expand its low-cost manufacturing exports to the US and cut into Indian market share. India's chances of replacing China as a low-cost manufacturing hub, in face of rising labour costs in China, are also endangered.

While the extent of trade diversion that will take place if India keeps out of the TPP is unclear, it stands to lose market share to some of the ASEAN nations with which it competes. India already has FTAs with ASEAN as a whole and its constituent members like Malaysia and Singapore. It is also in the process of negotiating FTAs with New Zealand and Australia. But with Singapore and Chile (TPP members and trans-Pacific countries) already far ahead of India in terms of FDI inflows, India stands to fall behind countries like Malaysia as well in FDI inflow. In addition, none of the existing FTAs are significantly wide-ranging in scope, and thus the effect of those FTAs will be overtaken, if not overshadowed, by the TPP.

India's ailing manufacturing sector, which it seeks to invigorate with a trillion dollar of investments (obviously relying on a substantial share of FDI), could come under threat from better placed counterparts in Asia like Malaysia and Vietnam. India hopes to create 100 million jobs in the manufacturing sector and aims for it to contribute 25 percent to the national GDP. But under the TPP, investments between member nations will become more seamless and barrier-free, leaving India as a less attractive option to foreign investors. Also, as earlier mentioned, a range of regulatory concessions will be on offer to TPP members, which will also make India unattractive. Given the established links between FDI and host country exports,[31] paucity of FDI in manufacturing also means that the potential to raise exports from India on the strength of FDI would remain somewhat constrained. This will potentially also spoil PM Narendra Modi's efforts at convincing the world to 'Make in India.'

Then there is the aspect of India lacking a voice on a platform as big as the TPP. The geopolitical, geo-economic and strategic intentions of the TPP are well known. US Vice President Joe Biden has been quoted as saying, "Our goal is for high standards of Trans Pacific Partnership to enter the bloodstream of the global system and improve the rules and norms." Thus the US intention to be at the forefront of 21st century trade governance is unambiguous. The TPP is perhaps also an effort to impose US trade rules on the Asia Pacific without taking into consideration sensitivities within the region's emerging economies.[32] India, as an emerging power and a G20 member, should voice its opinion in the TPP if it hopes to remain a critical member-state for future global economic governance. The BRICS group, which has already given birth to its first institution, the BRICS Development Bank, does not have a free trade agreement, although there have been calls from experts for setting up the same.[33]

Coming to the TTIP, it has been argued that the most dramatic proposal of this mega FTA involves forming a supra-national corporate tribunal that will have powers to undo state rulings.[34] The problem with such a pact is that not only will it be undemocratic but it also risks becoming a corporate-led template for future trade negotiations. This spells trouble for India, as its legislations are often protective in nature in response to the needs of a poor country, and a TTIP-led global model for corporate tribunals with immense powers will render a substantial portion of India's population vulnerable in the future. In terms of economic impact, most estimates indicate that the significant gains from TTIP will not come from tariff reduction but from the elimination of non-tariff measures and by way of alignment of standards, regulations and systems that act as barriers to trade, investment and public procurement. Given that tariffs are already low in the West, it is clear that tariff liberalisation, while it forms an important component of TTIP negotiations, is unlikely to result in a great deal of economic gain for either the US or the EU, claims Ross. But by way of regulatory harmonisation, higher cross-border investments, public procurements, etc., the economic impact is estimated to be large. Independent research shows that the TTIP could boost the EU economy by $165 billion and the US's by $131 billion.[35]

According to a comprehensive quantitative analysis of the potential impact of the TTIP, in terms of bilateral trade between the signatories, the authors find that US imports from the EU would increase by 7.6 percent, whereas EU imports from the US would increase by almost eight percent.[36] This implies an increase of total EU imports by 0.2 percent and 0.4 percent for total US imports, which is not very significant. In terms of possible trade diversion away from low income countries, the analysis concludes that while there could be diminishing market share for them, the impact is not threatening in nature. Then again, threats from the TTIP will likely emerge through institutional changes in the trade architecture, from production standards to provisions of IPR.

If new regulatory standards and disciplines emerge from the TPP and TTIP negotiations, they will potentially apply to the member-states' trade and investment relations with the rest of the world as well. Whether the rest of the world is shunted out of the market depends on its ability to live up to the steep standards set by these negotiations.

However, the TPP itself might be "tipping over."[37] Is the failure of the TPP the only way India is going to save itself from trade isolation? Or is India going to take part in the negotiations, debate contentious issues and bargain for developing country-friendly provisions, instead of being a mute spectator? It has been suggested that India should participate, but not actually join as yet.[38]

The TPP has its flaws and several of its provisions are anti-poor. Thus, advocating that India participate in it does not mean accepting all its provisions lying down. But by staying out, India will not be in a position to contribute to the negotiations. As pointed out, specific impacts of staying out of the TPP include some of the low-end industries being adversely hit and in turn increasing levels of unemployment. The ideal situation will be for India to be a part of the arrangement and lend the TPP more credence, while taking the lead in blunting the edges of some of the provisions which reflect a pro rich-country bias and do not take into consideration the needs and requirements of emerging economies like India.

Conclusion

The reforms of 1991 began the economic interactions which paved the way for India's economic growth. The internal industrial reforms played a major role in enhancing international trade and investments in India. However, this multipolar world requires trade policy and domestic policy to go hand in hand to prepare India for its larger role as an emerging market economy. India has been a founding member of the GATT, which was replaced by the WTO in 1995. Accordingly, its integration into the global economy, particularly since the 1990s, has been steady. For instance, the ratio of merchandise trade to GDP has increased from 13.88 percent in 1991 to 42.1 percent in 2012. As a recipient of FDI, India ranked16th in 2013 compared to 32nd in 2001, implying that there has been significant integration of the Indian economy with the outside world. Moreover, the WTO, with its transparent and merit-based dispute settlement system, has been the most distinguished example of successful multilateral cooperation since its inception—a view India has fiercely advocated.

But while multilateralism survived in Bali last year, the bitter reality of ambitious mega trade deals like the TPP and TTIP creating a snowball effect on global trade and leaving developing countries like India with little or no leverage to bargain, cannot be ignored. What is also noteworthy is that over past few years, India has criticised the WTO in areas pertaining to IPR, trade-related investment measures, general agreement on trade and services and non-tariff barriers. Moreover, India requires a consensus-based multilateral regime under the WTO framework that will work for its betterment. Unfortunately, because of the presence of 159 WTO members, agreement on a proposal is hard to achieve. The recent tumult over getting the Trade Facilitation Agreement passed is a case in point.

It is therefore essential to look into the international trade policy regulations and conditions which led to the evolution of mega-regional negotiations such as the TPP, TTIP and RCEP, with the objective of determining the conditions for market access in large parts of international trade and trade policies in the not too distant future.

Whether these mega FTAs can be a good alternative to WTO is disputable. On the one hand, the RCEP is a proposed grouping that wants to combine ten members of ASEAN and ASEAN +6 into one single comprehensive FTA that would harmonise existing arrangements. One of the guiding principle of the RCEP states that it "will have broader and deeper engagement with significant improvements over the existing ASEAN +1 FTAs, while recognising the individual and diverse circumstances of the participating countries." [39] For India, the RCEP not only promises to intensify its engagement with ASEAN but also with its other partners in the rubric of ASEAN +6 [40] which would further complement its Look East policy. On the other hand, the TPP is seen as one of the most ambitious 21st century trade negotiations led by US with 11 other Asia-Pacific countries. Unlike the RCEP which will cover trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues, subjects covered under the TPP include market access, intellectual property rights, foreign investment, competition policy, environment, labour, state-owned enterprises, e-commerce, competitiveness and supply chains, government procurement, technical barriers to trade, transparency in healthcare technology and pharmaceuticals, and regulatory coherence.[41]

In terms of market access, TPP will adversely affect India because of the conditions that will emerge from it. India lacks standards and capacities due to which it will lose its market access for exports to the markets of countries negotiating mega FTAs. India also requires developing an inclusive system of conformity assessment, failing which it will become difficult for India to access global markets on a bigger level. This will require India to negotiate under the RCEP, as it is seen by a few Indian exporting firms as the key to achieving the evolving standards of the TPP.

In terms of tariff reductions and service liberalisation, the TPP has the potential to go beyond WTO; however, there is a possibility that the benefits of liberalisation will accrue to a handful of trading partners. Moreover, it will not address concerns of anti-dumping, countervailing duties or subsidies at all.

Inclusion of standards—one kind which is generic, related to environment and labour, and the other which is product specific—is going to make trade negotiation all the more complex, and countries that are outside the negotiations, especially India, need to be prepared. Similarly the TTIP will focus on mandatory standards prevailing in the EU and the US, which are generally private standards whose content requirement keeps increasing with time and competition measures. This agreement will largely benefit member countries, while countries outside will be highly affected. Even at a broader level, because standards incorporated in the mega FTAs discussed here will potentially become international benchmarks in the years to come, India stands to gain little if it stays out of the picture.

Trade and investment coverage of the TPP is about 30 percent, and the TTIP comprises about half of the global share. With supply chains, this coverage will be considerably larger.[42] A few experts have said that Indian firms are capable of meeting the standards and even desire to produce modern and knowledge-intensive products, but it may require a platform such as the TPP for it to fulfill its agenda of effectively meeting the required standards.

However, the credibility of WTO cannot be ignored. As compared to the TPP, its rules are less complex and address the issues of anti-dumping and subsidies, which are vital for India. By contrast TPP is still very speculative, it has many significant gaps in coverage and it is expanding into new areas that are problematic. Of course, the lack of emphasis given to food subsidies in the recently held meeting to sign the Trade Facilitation Agreement did make India a little sceptical of the WTO, although it did eventually agree to the deal.

The way forward for India to remain relevant in the global trading system might well be membership of mega FTAs such as the RCEP, TPP and TTIP. However, rushing into FTAs without a level-playing field for domestic businesses would not be of much help to India. A desirable strategy would be to have a good mix of bilateralism and multilateralism by targeting trade pacts which are comprehensive.[43] Finally and critically, only major structural changes in the Indian economy—from infrastructural overhauls to legislative fixes and institutional reforms (including curbing corruption) to human resource development—will determine whether India manages to retain a space in a world of complex supply chain-led international trade and investment. Mega FTAs are mere enablers, which India should partake in according to its needs at a given time.

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1. TPP is an FTA involving Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the US, and potentially China. It covers 40% of global GDP and one-third of world trade.

2. TTIP is an FTA between EU and the US, which covers more than 30% of world trade across sectors. It could boost the EU economy by $165 billion and the US's by $125 billion .

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