

Free Trade Agreements [UPSC Notes]

A Free Trade Agreement (FTA) is an arrangement or a treaty between two or more countries to remove trade barriers and facilitate trade between them. Currently, India is a part of 12 free trade agreements or regional trade agreements that help engage with other countries. India is also negotiating FTAs with many other countries including Australia, Canada, the EU and Israel.

In this article, you can read all about free trade agreements, FTAs of India and the benefits of such agreements, all important for the [IAS exam](#) economy and international relations segments.

Free Trade Agreement (FTA)

A Free Trade Agreement (FTA) is an agreement between two or more countries to reduce trade barriers in imports and exports among them.

- These agreements deal with the determination of the tariffs and duties that are imposed by the countries on imports and to reduce trade barriers and thereby strengthen the bilateral or multilateral trade relations.
- With FTA, goods and services can be exchanged across international borders with limited or no government tariffs, quotas, or subsidies.
- A free-trade policy may simply be the absence of any trade restrictions.
- The idea of FTA is the opposite of the concept of trade protectionism or economic isolationism.
- In the current world, free trade policy is often implemented through a formal and mutual agreement of the nations involved.

Classification of Trade Agreements

Based on the level of openness in the trade between the countries, free trade policies can be categorized as:

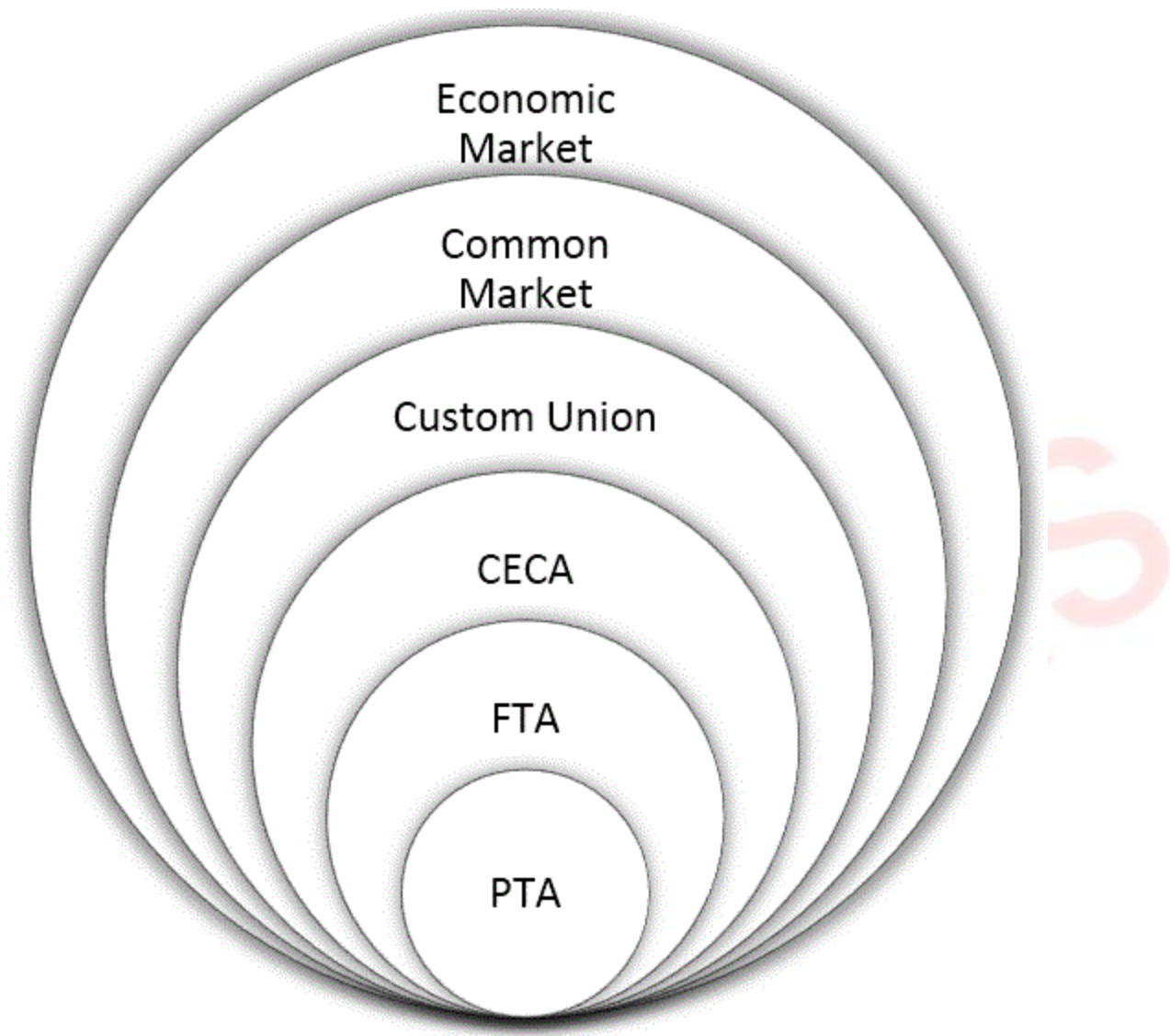


Image source: TRADE ISSUES

- **Preferential Trade Agreement (PTA)**: Two or more countries agree upon a preferential right of entry to certain products facilitated by reducing duties.
 - A **positive list** is maintained i.e. the list of the products to which preferential access is provided.
 - Examples: India – MERCOSUR PTA and India – SAARC Preferential Trading Arrangement (SAPTA)
- **Free Trade Agreement (FTA)**: Multiple countries agree to eliminate tariffs on items covering substantial bilateral trade.
 - A **negative list** of products and services is maintained by the negotiating countries on which the terms of FTA are not applicable. Hence compared to PTAs, FTAs are more comprehensive.
 - Examples: India – South Asia Free Trade Area (SAFTA) and India Sri Lanka FTA

- **Comprehensive Economic Cooperation Agreement (CECA):** These involve a comprehensive package of agreements on goods/services, investment, mutual recognition, e-commerce, intellectual property, etc.
 - Examples: India Singapore CECA and India Malaysia CECA
- **Customs Union (CU):** Members of the CU may agree to trade at zero duty among themselves, maintain common tariffs against the rest of the world.
 - Examples: European Union Customs Union and Southern African Customs Union
- **Common Market:** In a common market, countries also allow free trade and free movement of labour and capital among the members of the group.
 - Example: European Common Market
- **Economic Union:** It is a Common Market extended through further harmonisation of fiscal/monetary policies and shared executive, judicial & legislative institutions.
 - Example: [European Union \(EU\)](#)

Significance of FTAs

In this section, the significance of FTAs is discussed.

- FTAs encourage businesses in member countries to focus on producing and selling the goods that best use their resources while other businesses import goods that are scarce or unavailable domestically.
- FTAs increase the production and consumption of internationally traded goods as selected goods are produced by every country at lower costs.
- FTAs facilitate the mix of local production and foreign trade which in turn helps economies to boost growth.
- FTAs help diversify supply chains by making it easier and cheaper for more businesses to do business across borders.
- Reducing the trade barriers will help small and medium-sized enterprises in the export of their goods and services.
 - Also gives them access to new and emerging technologies.
- From the consumer's point of view, FTAs would help the consumers of both countries see improvements in the variety and affordability of products.
- FTAs play an important role in strengthening the bond between the countries.
- FTAs encourage Foreign Direct Investments ([FDI](#)) which helps in capital flow and employment creation.
- FTAs help in eliminating monopolies.

Concerns about FTA

- The overall success of trade agreements depends on the extent of new trade created based on comparative advantage, which will boost both trade and economic growth.
 - However, if the FTA causes large diversions of the trade from more competitive nations to the FTA members, then the overall impact of the FTA will be negative.
- Threat to Intellectual property rights, as the products of domestic producers, can be easily replicated by big corporations.

- Loss of revenue which was levied in the form of import duties and tariffs.
- The exploitation of domestic resources and labourers due to the expansion of foreign corporations.
- It increases the dependence of trade in goods and services on other countries.
- The free movement of foreign goods affects the domestic goods, leading to losses for the indigenous industries.

Free Trade Agreements and India

India currently has 12 FTAs and India-UAE CEPA is the latest one.

- India opted out of the giant Regional Comprehensive Economic Partnership of the Asia-Pacific nations in 2020.
- The earlier results of FTAs have been mixed and the Confederation of Indian Industry has demanded a review of existing trade agreements.
- India's FTA with Sri Lanka has resulted in meagre growth in bilateral trade and very little diversification of exports.
- India's FTA with the ASEAN shows that the percentage of imports of food and beverages, consumer goods, and industrial supplies have increased, like that of fuel, transport equipment, and capital goods have reduced, thus depriving India of any substantial gains from the trade deal.
- The FTA with South Korea also has seen limited benefits to India.
- The FTA with Japan has increased the share of industrial supplies, transport equipment, and capital goods imports, enhancing productivity in India.

Way Forward

- FTA negotiations should include terms and conditions to introduce more transparency and predictability in terms of Non-Tariff Barriers to ensure a less cumbersome compliance procedure.
- India should explore more regions that are ready for a trade agreement with India and there is a huge potential to widen India's market access to regions like Africa, Central and Southeast Asia.
- The geopolitical issues should be resolved and the process of selection of trade partners must be reformed to expand the free trade policy.
- It is important to review and renegotiate existing trade agreements that are not producing intended results.
- It is said that India's poor export competitiveness has restrained it from exploiting the full potential of the FTAs, hence India should take up measures to scale up its export potential and competitiveness.

UPSC Questions related Free Trade Agreements

What does FTA mean?

Agreements involving two or more countries where they agree on certain terms and conditions that influence the trade in goods and services are referred to as free trade agreements.

Difference between PTA and FTA

The difference between an FTA and a PTA is that while in a PTA there is a positive list of products on which duty is to be reduced; in an FTA there is 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 on which duty is to be reduced

How many FTA does India have?

India currently has 12 Free Trade agreements

