Assessing the Effectiveness of India's Free Trade Agreements (Ftas): A Comparative Analysis

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KEYWORDS
India's Free Trade Agreements, Inflow, Economic Development.

ABSTRACT
This study, titled "Assessing the Effectiveness of India's Free Trade Agreements (FTAs): A Comparative Analysis," explores the economic impact, sectoral outcomes, and implementation challenges of India's FTAs. With an increasing number of trade agreements aimed at enhancing market access, boosting exports, and promoting economic growth, India has pursued FTAs with various countries and regional blocs, including ASEAN, Japan, and South Korea. However, these agreements have produced mixed results, with significant trade imbalances, limited export growth, and sectorial disparities, raising questions about their overall effectiveness. The study employs a comparative analysis framework, combining quantitative and qualitative methods. By analysing trade data, the study assesses changes in trade volumes, trade balances, and GDP growth post-FTA implementation. Additionally, sector-specific analyses examine the differential impact on agriculture, manufacturing, and services, revealing both gains in certain industries and challenges faced by others. Findings indicate that while FTAs have increased India's trade volume, they often disproportionately favour imports over exports, leading to trade deficits with key partners. Sectors such as IT and services have benefited from liberalized trade, while traditional industries like agriculture face competitive pressures from imports, limiting broader economic gains. Moreover, implementation challenges such as regulatory and non-tariff barriers in partner countries, low FTA utilization by Indian businesses, and limited awareness have hindered the agreements' potential benefits. Interviews with stakeholders, including policymakers and industry representatives, further highlight the need for enhanced support and strategic adjustments to maximize FTA advantages. India's FTAs have contributed to economic integration, their effectiveness in achieving balanced trade and sustainable growth requires improvement. Recommendations include negotiating favourable terms, addressing non-tariff barriers, and increasing awareness among Indian businesses. This study's findings provide valuable insights for policymakers to refine India's FTA strategy, fostering more equitable and beneficial trade relationships in the future.

1. Introduction

The decline in global FDI during 2009 was mainly attributed to subdued cross border merger and acquisition (M&A) activities and weaker return prospects for foreign affiliates, which adversely impacted equity investments as well as reinvested earnings. According to UNCTAD, decline in M&A activities occurred as the turmoil in stock markets obscured the price signals upon which M&As rely. There was a decline in the number of green field investment cases as well, particularly those related to business and financial services. From an institutional perspective, FDI by private equity funds declined as their fund raising dropped on the back of investors‟ risk aversion and the collapse of the leveraged buyout market in tune with the deterioration in credit market conditions. On the other hand, FDI from sovereign wealth funds (SWFs) rose by 15 per cent in 2009. This was apparently due to the revised investment strategy of SWFs - who have been moving away from banking and financial sector towards primary and manufacturing sector, which are less vulnerable to financial market developments as well as focusing more on Asia. As the world economic recovery continued to be uncertain and fragile, global FDI flows remained stagnant at US $ 1.1 trillion in 2010. According to UNCTAD‟s Global Investment Trends Monitor (released on January 17, 2011), although global FDI flows at aggregate level remained stagnant, they showed an uneven pattern across regions – while it contracted further in advanced economies by about 7 per cent, FDI flows recovered by almost 10 per cent in case of developing economies as a group driven by strong rebound in FDI flows in many countries of Latin America and Asia. Rebound in FDI flows to developing countries has been on the back of improved corporate profitability and some improvement in M&A activities with improved valuations of assets in the stock markets and increased financial capability of potential buyers.

Improved macroeconomic conditions, particularly in the emerging economies, which boosted corporate profits coupled with better stock market valuations and rising business confidence augured well for global FDI prospects. According to UNCTAD, these favourable developments may help translate MNC‟s record level of cash holdings (estimated to be in the range of US$ 4-5 trillion among developed countries" firms alone) into new investments during 2011. The share of developing countries, which now constitutes over 50 per cent in total FDI inflows, may increase further on the back of strong growth prospects. However, currency volatility, sovereign debt problems and potential protectionist policies may pose some risks to this positive outlook. Investment, or creation of capital, is a vital determinant of economic growth. In general, the investment may lead to the creation of physical capital goods, finance, and human capital. In grouping with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Investments consist of foreign investment and domestic investment. Foreign investment can decrease the domestic saving gap. Hence, notwithstanding the domestic saving gap, economic growth can be increased in an open economic with inflows of foreign investment. The foreign investment in India would encourage the domestic investment. The foreign investments are approving to economic growth and developing countries like India. The multinational corporation is a suitable device to integrate world economy. The growth of foreign investment directly associated growth of multinational corporations. If backward and underdeveloped countries are interested in rapid economic development, they will have to import machinery, technical know-how, entrepreneurship, and foreign investment. One of the methods of paying for the import is to set up exports or second alternative is getting foreign technology and equipment and it also depends upon foreign assistance is some forms or the other. Most countries of the world which enhance the road to economic development, had to depend on foreign capital to some economic fact cannot be devised that foreign capital contributed in many important way process of economic growth and industrializations. Foreign direct investment is an investment involving a long term link reflects a lasting interest and control of a resident entity in one financial system on an entity resident in an economy other than that of the foreign direct investor, individual as business entities may undertake FDI, such investment involve both the transaction between the two entities and all following transaction between them among foreign affiliated.

Importance of FTAs in Global Trade

Free Trade Agreements (FTAs) play a pivotal role in shaping global trade dynamics by reducing barriers to international commerce, fostering economic integration, and promoting cross-border partnerships. FTAs, which establish mutually beneficial trade conditions between countries or regions, typically involve the elimination or reduction of tariffs, import quotas, and other trade restrictions. By facilitating easier access to markets, FTAs create opportunities for businesses to expand their operations internationally, access diverse customer bases, and engage in more efficient production by capitalizing on each country's comparative advantages. One of the key benefits of FTAs is the potential for economic growth. Through reduced trade barriers, countries can increase their export volumes, enhance competitiveness, and stimulate GDP growth. For instance, the European Union (EU) and North American Free Trade Agreement (NAFTA), now the United States-Mexico-Canada Agreement (USMCA), have demonstrated how FTAs can foster regional economic integration, thereby creating more robust markets and contributing significantly to the economic development of member nations. FTAs can also attract foreign direct investment (FDI), as businesses are more likely to invest in countries where market access is assured and regulatory barriers are minimized. This investment can enhance local industries, create jobs, and encourage technology transfer, contributing to long-term economic stability.

Furthermore, FTAs have geopolitical significance, often strengthening diplomatic relations between member countries. By aligning economic interests, FTAs contribute to more cooperative and stable international relationships, which can positively impact security, environmental cooperation, and cultural exchange. Moreover, FTAs enable countries to collectively address trade-related challenges, such as sustainable development, labour standards, and intellectual property rights, promoting a more inclusive approach to global trade. Despite their benefits, FTAs also present challenges, particularly for developing nations, which may face competition with more developed economies. This competitive pressure can impact local industries that are less prepared to compete globally. Additionally, concerns about potential trade imbalances and loss of regulatory control have led to growing scrutiny of FTAs.

In today’s interconnected world, FTAs are instrumental in fostering trade liberalization, driving economic growth, and promoting international cooperation. However, the effectiveness of these agreements depends on their design, implementation, and the readiness of member countries to address potential downsides, making the study of FTAs’ impact crucial for future trade policy decisions.

STATEMENT OF THE PROBLEM

The effectiveness of India's Free Trade Agreements (FTAs) has become a crucial issue in the context of India's expanding role in the global economy and its strategic ambitions for regional influence. Despite signing multiple FTAs with countries and regions, including the Association of Southeast Asian Nations (ASEAN), Japan, and South Korea, there is on-going debate regarding their impact on India's economy. While FTAs are expected to facilitate market access, boost exports, and attract foreign investment, India's experiences with these agreements have yielded mixed results. Challenges such as trade imbalances, inadequate gains for local industries, and limited market access in partner countries raise questions about the real benefits of these FTAs. Thus, evaluating their effectiveness is essential for informed policy-making and strategic economic planning.

One of the main issues is the persistent trade deficit India faces with many of its FTA partners. For instance, following the India-ASEAN FTA, India's imports from ASEAN countries grew at a faster rate than its exports, leading to a widening trade gap. This imbalance has sparked concerns among stakeholders that FTAs may be disproportionately benefiting partner countries, putting Indian industries, particularly small and medium enterprises, at a disadvantage. Furthermore, sectors like agriculture, textiles, and manufacturing have voiced apprehension over the impact of liberalized trade, as increased competition from imports can hinder their growth and sustainability. Another area of concern is the disparity in the regulatory and non-tariff barriers that Indian exports face in FTA partner countries. While India may lower tariffs to encourage imports, Indian exports often encounter restrictive regulatory standards and non-tariff measures in partner markets, limiting their competitive advantage. Additionally, limited awareness and utilization of these FTAs among Indian businesses, particularly smaller enterprises, further hinder the agreements' potential benefits.

OBJECTIVE OF THE STUDY

1. To evaluate the economic impact of India's FTAs on trade volume, trade balance, and GDP growth.
2. To analyze the sector-specific effects of FTAs on Indian industries.
3. To examine the Trends and patterns of foreign direct investment in India.

2. Methodology

The study employs a comparative analysis framework, combining quantitative and qualitative methods. It uses trade data to assess the economic impact of India's FTAs on exports, imports, and GDP growth, while sectorial case studies provide in-depth insights. Interviews with policymakers and industry stakeholders explore implementation challenges and barriers.

Data Collection

For this purpose, the prime sources of secondary data include DIPP, Reserve Bank of India Bulletins, etc. The Internet has also remained as an important source of secondary data.

Table 1: Foreign Direct Investment And Total Foreign Investment In India During 2005-2017.

Year	FDI	Total Foreign Investment	Percentage
2005-06	7123	15366	39.38
2006-07	95788	22189	43.70
2007-08	23684	29829	76.52
2008-09	34546	62114	56.10
2009-10	42341	28018	149.45
2010-11	37134	70121	53.83
2011-12	34847	66318	52.55
2012-13	46569	63964	72.78
2013-14	34268	62067	55.26
2014-15	36056	41075	87.76
2015-16	44281	88353	51.10
2016-17	66659	51429	108.03
2017-18	61082	67994	88.36
CAGR	19.31%	12.12%	-

Source: RBI Monthly Bulletin

Data Processing and Analysis

For analyzing the data, advanced statistical tools have been used. In some cases, simple statistics like average, percentage and CAGR have been applied. Exploratory research, require some advanced tools; therefore to test the various hypothesis of the study, ANOVA. The test was conducted at 95 percent confidence level (or 5 percent level of significance).

Trends in Aggregate Inflow of FDI in India

The yearly aggregate inflow of FDI has been computed on the basis of balances appearing on the last day of the financial year (31 March) in India. The total inflow of FDI accepted by the various channels under study can be reviewed with the help of the table. The data has been divided into two time periods according to the availability of data source. The scheme of data period has been categorized as follows 2011-2012 and 2017-2018.

Table 2: Trends In Aggregate Inflow Of Fdi In India During 2011-2018.

Year	Amount	Index No.	Growth Rate
2011-12	23684	151	-
2012-13	34546	150.15	60.25
2013-14	42341	368.13	138.61
2014-15	37134	563.72	158.60
2015-16	34847	731.11	148.00
2016-17	46569	823.76	104.76
2017-18	34268	923.26	127.20

Source: RBI Monthly Bulletin

Table 3: FDI and FIPB, RBI and Other Routes.

Source of variation	Sum of square	Degree of freedom	Mean square	F
Between Group Within Groups	1374.339 1211.105	2 36	687.170 33.642	20.426 -

An analysis of the recent trends in FDI flows at the global level as well as across regions/countries suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy as part of the cautious capital account liberalization process. Even during the recent global crisis, FDI inflows to India did not show as much moderation as was the case at the global level as well as in other EMEs. However, when the global FDI flows to EMEs recovered during 2010-11, FDI flows to India remained sluggish despite relatively better domestic economic performance ahead of global recovery. This has raised questions especially in the backdrop of the widening of the current account deficit beyond the sustainable level of about 3 per cent. In order to analyze the factors behind such moderation, an empirical exercise was undertaken which did suggest the role of institutional factors (Government’s to implement quality policy regime) in causing the slowdown in FDI inflows to India despite robustness of macroeconomic variables. A panel exercise for 10 major EMEs showed that FDI is significantly influenced by openness, growth prospects, macroeconomic sustainability (International Investment Position), labour cost and policy environment. A comparison of actual FDI flows to India vis-à-vis the potential level worked out on the basis of underlying macroeconomic fundamentals showed that actual FDI which has generally tracked the potential level till 2009-10, fell short of its potential by about 25 per cent during 2010-11. Further, counter factual scenario attempted to segregate economic and non-economic. Apart from the role of institutional factors, as compared to other EMEs, there are also certain sectors including agriculture where FDI is not allowed, while the sectoral caps in some sectors such as insurance and media are relatively low compared to the global patterns. In this context, it may be noted that the caps and restrictions are based on domestic considerations and there is no uniform standards that fits all countries. However, as the economy integrates further with the global economy and domestic economic and political conditions permit, there may be a need to relook at the sectoral caps (especially in insurance) and restrictions on FDI flows (especially in multi-brand retail). Further, given the international experience, it is argued that FDI in retail would help in reaping the benefits of organized supply chains and reduction in wastage in terms of better prices to both farmers and consumers. The main apprehensions in India, however, are that FDI in retail would expose the domestic retailers especially the small family managed outlets

- to unfair competition and thereby eventually leading to large-scale exit of domestic retailers and hence significant job losses. A balanced and objective view needs to be taken in this regard. Another important sector is the generation, transmission and distribution of electricity produced in atomic power, where FDI is not permitted at present, may merit a revisit. In this context, it may be noted that electricity distribution services is a preferred sector for FDI. According to UNCTAD four out of top ten cross-border deals during 2009 were in this segment, which led to increase in FDI in this sector even in the face of decline in overall FDI. Similarly, the demands for raising the present FDI limits of 26 per cent in the insurance sector may be reviewed taking into account the changing demographic patterns as well as the role of insurance companies in supplying the required long term finance in the economy.

Economic Impacts on Trade Volume and GDP Growth

India’s Free Trade Agreements (FTAs) aim to enhance trade volume and stimulate GDP growth by reducing tariff and non-tariff barriers, facilitating easier market access, and attracting foreign investments. However, the economic impact of these agreements has been mixed, with varying outcomes across different FTAs and economic sectors. A primary indicator of effectiveness is the change in trade volume post-FTA implementation. Studies suggest that while India's FTAs with countries like Japan and South Korea have led to increased trade volume, much of this growth is often skewed toward imports rather than exports, creating trade imbalances. This imbalance is particularly evident in India’s agreements with ASEAN countries, where imports have grown faster than exports, raising concerns about trade deficits and the competitiveness of Indian industries. FTAs also contribute to GDP growth by supporting sectoral expansion and productivity gains through access to foreign technology, raw materials, and capital. Increased trade volumes can lead to higher output and job creation in industries where India has a comparative advantage. However, empirical evidence suggests that the GDP impact has been modest, partly due to the limited capacity of some Indian sectors to compete with imports. For example, while the services sector—especially IT and professional services—has benefited from FTAs, traditional sectors such as agriculture and manufacturing face competitive pressures, limiting broader GDP contributions. Moreover, India’s FTAs have not fully addressed non-tariff barriers in partner countries, restricting the potential for export-led growth. Regulatory standards, quality controls, and other requirements often limit market access for Indian products, dampening the positive impact on GDP. To maximize the economic benefits of its FTAs, India may need to negotiate more favorable terms, promote competitiveness in key sectors, and focus on reducing non-tariff obstacles in partner markets. Overall, while FTAs have expanded trade volume, their contribution to GDP growth remains an area for improvement.

3. Conclusion

The study on "Assessing the Effectiveness of India’s Free Trade Agreements (FTAs): A Comparative Analysis" reveals that while FTAs have played a significant role in expanding India’s trade volume, their impact on overall economic growth and sectoral development has been mixed. Through a comparative analysis, it is evident that FTAs with major trading partners have led to increased imports, yet export growth has often lagged, resulting in persistent trade deficits with certain regions. This trade imbalance raises concerns regarding the long-term benefits of FTAs for India’s economic stability and industrial competitiveness. One of the main findings highlights the uneven benefits across sectors. While industries like IT and services have benefited from liberalized trade policies, traditional sectors such as agriculture and manufacturing have faced competitive pressures from foreign goods, affecting domestic production and employment. Additionally, limited FTA utilization among small and medium-sized enterprises (SMEs) and the presence of non-tariff barriers in partner countries have constrained India’s export growth, reducing the agreements' overall effectiveness. The study also identifies significant barriers in the implementation of FTAs, including regulatory challenges and limited awareness among stakeholders. Addressing these challenges will be essential to maximizing the potential of FTAs. Effective policies aimed at reducing non-tariff barriers, enhancing sectoral competitiveness, and improving FTA awareness among businesses could substantially increase India’s export capacity and economic gains from these agreements.

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