

Free Trade Agreements: Catalyst Or Constraint For India's Competitiveness

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Abstract—Free Trade Agreements (FTAs) are central to India's evolving trade strategy as it balances openness with protection. This paper examines the dual role of FTAs as both catalysts and constraints for India's competitiveness. On one hand, FTAs expand market access, integrate India into global value chains, and enhance strategic leverage in the Indo-Pacific. On the other hand, past experiences highlight risks such as uneven sectoral gains, growing trade deficits, and structural inefficiencies at home. Drawing on case studies from India's engagements with ASEAN, RCEP, UAE, and Australia, the paper argues that the success of FTAs depends on complementary domestic reforms in logistics, infrastructure, and policy. It concludes that FTAs are neither inherently beneficial nor harmful; their impact lies in design, negotiation, and implementation. For India, a selective, reform-driven approach is essential to transform FTAs into instruments of sustainable competitiveness.

I. INTRODUCTION

Free Trade Agreements (FTAs) are once more at the forefront of policy debates in India. As global supply chains face pressure from geopolitical tensions, climate concerns, and accelerating technological shifts, nations are reevaluating the balance between openness and protection. For India, the real question is not whether to enter FTAs, but how to design them to advance long-term competitiveness.

India's new trade decisions are a manifestation of this cautious approach. In 2019, India pulled out of the Regional Comprehensive Economic Partnership (RCEP) due to fears of potential import surges and asymmetric gains. This was a calculated move. However, in 2022, India signed the Comprehensive Economic Partnership Agreement (CEPA) with the UAE and finalized the Economic Cooperation and Trade Agreement (ECTA) with Australia. These measures indicate India's penchant for selective and calculated involvement.

This essay contends that FTAs are instruments whose impacts vary with context. They can be effective catalysts with the support of domestic reforms and industry approaches. They can increase exports, link India into global value chains, and improve efficiency. In the absence of safeguards and complementary policies, they can become shackles. They could increase trade deficits and exert pressure on underdeveloped sectors.

II. FTAs AS CATALYSTS FOR COMPETITIVENESS (ANNEXURE A)

1. *Increased Market Access*

FTAs increase export competitiveness by reducing tariffs and accessing new markets. The India-UAE CEPA, for example, eliminated tariffs on 90% of tariff lines. This increased India's gems, jewelry, and engineering product exports by 15% in its first year (Ministry of Commerce, 2023). These agreements will allow India to diversify outside traditional markets such as the US and EU, giving exporters more opportunities.

2. *Integrating into Global Value Chains (GVCs)*

India has consistently failed to integrate into Asia's dense manufacturing networks. FTAs give the impetus for supply chains to shift towards India, particularly with firms looking to diversify away from China. The electronics, auto, and chemical industries—already benefited from Production-Linked Incentive (PLI) schemes—will likely gain the most.

3. *Driving Domestic Efficiency*

Though global competition may be intense, it can also be revolutionary. India's 1991 reforms demonstrated that liberalization of trade can catalyze modernization. Carefully negotiated FTAs in the present can have a similar impact, compelling Indian firms to step up their technology, quality, and size, as long as infrastructural holes are filled.

4. *Strategic Leverage*

Trade deals today are geopolitically important. The FTAs between India, the UK, and Australia increase trade and enhance their position in the Indo-Pacific, diversifying from China-based supply chains. In such a manner, FTAs are economic drivers and strategic instruments.

III. FTAs AS CONSTRAINTS: LESSONS FROM EXPERIENCE (ANNEXURE B)

1. *Uneven Gains Across Sectors*

The gains of FTAs are seldom spread equally. MSMEs and agriculture usually face lower-cost imports. Fears over subsidized dairy imports from Australia and New Zealand were pivotal in India dropping out of RCEP (NITI Aayog, 2020). These uneven effects bring economic and political dangers.

2. *Growing Trade Deficits*

India's past FTAs are a cautionary tale. Trade with ASEAN, Japan, and South Korea rose, but imports accelerated even faster. NITI Aayog (2018) says India's trade deficit with ASEAN grew from \$5 billion in 2010 to more than \$22 billion in 2019. Reducing tariffs without adequate market access undermines competitiveness.

3. *Non-Tariff Barriers (NTBs)*

Reduced tariffs do not necessarily translate to simplified exports. Indian drug and agro-product exporters often have to contend with stringent regulatory requirements in the EU and Japan. Without measures to address NTBs, FTAs could become agreements that provide marginal real gains.

4. *Structural Bottlenecks at Home*

India's 13–14% GDP logistics costs, as opposed to 8% in developed economies (World Bank, 2022), detracts from competitiveness. Without upgrading infrastructure, energy, and skills, FTAs alone cannot yield sustained gains.

IV. NAVIGATING THE MIDDLE PATH: A STRATEGIC APPROACH (ANNEXURE C)

1. *Selective Engagement*

India's withdrawal from RCEP was more of a rethinking and less of a retreat. Rather than going for significant multilateral agreements that open up sensitive sectors, India concentrates on bilateral FTAs with stronger complementarity partners such as the UAE and Australia.

2. *Domestic Reform as the Foundation*

The success of FTAs is mainly dependent on India's domestic competitiveness. Initiatives such as the National Logistics Policy (2022), which targets reducing logistics costs to 8% of GDP and PLI schemes, make a more robust platform for export-driven growth.

3. *Leveraging Services Exports*

India is the world's sixth-largest exporter of services, with IT-BPM accounting for more than \$200 billion annually (RBI, 2023). Nevertheless, services tend to get less attention during trade negotiations. To realize India's most significant comparative advantage, professional mobility, digital trade, and mutual recognition of standards should be top priorities for future FTAs.

4. *Getting Ready for New-Age Clauses*

Contemporary FTAs are increasingly likely to contain digital trade and sustainability provisions. For instance, the EU's Carbon Border Adjustment Mechanism (CBAM) might charge carbon-intensive exports such as steel. India needs to prepare by investing in carbon accounting and renewable energy so that such clauses become opportunities instead of obstacles.

V. CONCLUSION

FTAs are neither good nor bad. It is a matter of how they are drafted and implemented. India's previous experiences with ASEAN, Japan, and South Korea exemplify the dangers of onesided results. On the contrary, the recent deals with the UAE and Australia, tied to reforms, exemplify the potential rewards of carefully focused, reform-driven engagement. To make FTAs genuine drivers of change, India must approach them as part of an overarching competitiveness strategy. This entails deepening domestic reforms, enhancing services, and gearing up for green and digital trade changes. FTAs can make India more globally prominent, resilient, and inclusive in terms of growth. Finally, FTAs are not only trade agreements but economic change instruments. For India, the decision is simple: let them bind or make them drivers of competitiveness.

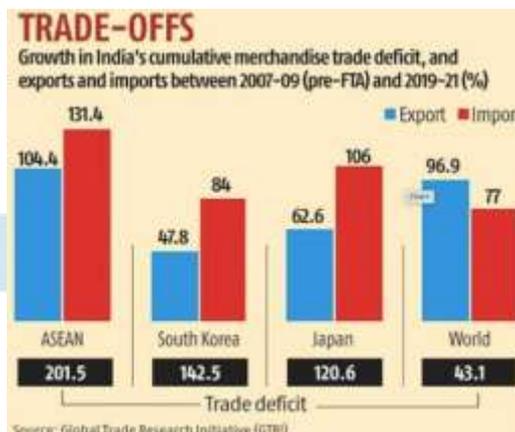
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ANNEXURE A

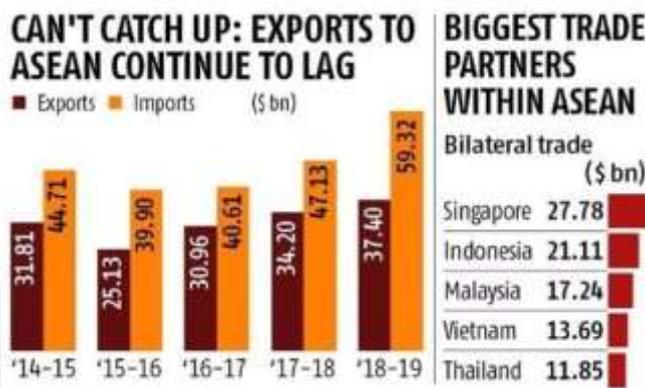


Source: [Ministry of Commerce and Industry](#)



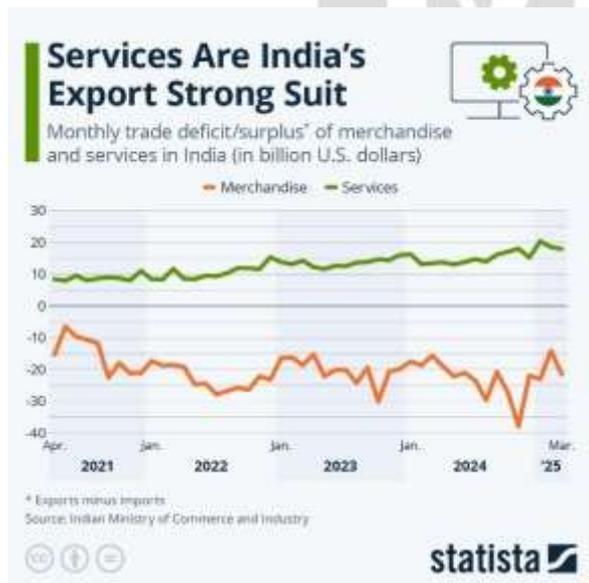
Source: [Forum IAS](#)

ANNEXURE B



Source: [AYO Post](#)

ANNEXURE C



Source: [Statista: Services Are India's Export Strong Suit](#)



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