# Mega regional trade agreements and the Indian economy

## An analysis of potential challenges and opportunities*

**Bipul Chatterjee is Deputy Executive Director, and Kyle Cote is a Policy Analyst, at CUTS International†**

Due to a multitude of factors, not least the stagnation in multilateral trade negotiations under the aegis of the World Trade Organisation (WTO), mega regional trade agreements (RTAs) are gaining momentum. The three main mega RTAs concerning India are the Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP), and the free trade agreement (FTA) between the European Union (EU) and the Association of Southeast Asian Nations (ASEAN).

The TTIP accounts for about 60 per cent of global trade where about 30 per cent is global trade in goods and 40 per cent is global trade in services. TPP will encompass 40 per cent of global gross domestic product (GDP) with a population of 800 million. Both agreements intend to emphasise greater trade openness, high '21st century standards', and regulatory harmonisation that provides a competitive trade and investment environment for deeper economic and trade linkages.

These mega RTAs create opportunities and challenges for excluded countries like India. As noted in both the Economic Survey[1] and new Foreign Trade Policy[2], India must recognise the emerging challenges from mega RTAs. Potential effects that India may sustain stem from loss in market access due to exclusion from preferential treatment and unattainable higher trade standards.

India can take these challenges and transform them into opportunities for serious economic growth and development. India will have the opportunity to update and upgrade its domestic regulations on tariffs and non-tariff issues, reach out to new markets and perhaps benefit from an increase in global economic growth. For India to gain the greatest benefit from these opportunities, it will require a balanced approach between market liberalisation and support for domestic industries.

There is abundant space for new and alternative markets in Latin America, Central Asia and Eastern Europe, and Africa. Domestic reforms can address gaps in specific trade regulations where there is potential for streamlining and stimulating trade competitiveness. Its encouraged role as a rule-setter in the Regional Comprehensive Economic Partnership (RCEP) of Asia and the Pacific would provide India a stepping stone to strategically craft trade rules in preparation for possible pressure from mega RTA members and even higher standards placed at the multilateral level.

Indian industry can be encouraged to integrate deeper into value chains both in mega RTA regions, particularly in ASEAN, and elsewhere by producing high-value products that, with the assistance of domestic reforms and more comprehensive trade agreements, will satisfy the increasingly high standards based on mega RTAs. Importantly, India needs to assess the advantages that accrue from participation at the technology-intensive, highly profiting top end of the value chain as well as the labour-intensive, small and medium enterprise (SME) mobilising, job-generating bottom end of the value chain.

Accordingly, it needs to optimise its tariffs and arrive at a balanced policy while engaging in future bilateral and regional trade agreements. Similarly, domestic policy tools, such as the 'Make in India' programme[3], can assist India in broadening its portfolio at both ends of the value chain.

This article concisely assesses the potential impact of the three mega RTAs on the Indian economy, with particular focus on the TPP and TTIP. In detailing the forecasted implications, it provides a series of recommendations as to how India should adapt its trade policy and strategy, efficiently embrace the opportunities arising from this new international trade regime and minimise the potential negative impacts. These recommendations include unilateral measures that India could carry out by changing its own domestic regulations and other bilateral, regional and multilateral measures that will include RTA members but also non-traditional markets which are excluded from these mega RTAs.

### Trade diversion and macroeconomic variables

Based on scenarios created using the Global Trade Analysis Project (GTAP) model combined with the poverty analysis tool (POVCAL)[4], the net-effect of trade diversion expected from mega RTAs on India's exports and imports were found to vary across commodities and scenarios both in terms of the magnitude and direction of change.

In general, the impact on exports was largest when all three mega RTAs were in force. Table 1 summarises the expected export losses and gains in certain commodities from all three mega RTAs as a change from the current status quo scenario (BASE).

The extent of the impact for both export and import is significantly larger and more favourable under the scenario where there is full global free trade as per multilateral trade

### Table 1. India's Expected Export Losses and Gains (% change from BASE)

| Export Loses | | Export Gains | |
|---|---|---|---|
| **Commodity** | **All 3 RTAs in force** | **Commodity** | **All 3 RTAs in force** |
| Grains and crops | -0.2 per cent | Extraction | 0.3 per cent |
| Processed food | -1.6 per cent | Utility and construction | 0.4 per cent |
| Textiles and wearing apparel | -1.7 per cent | Transport and communication | 0.7 per cent |
| Light manufacturing | -0.2 per cent | Other services | 0.9 per cent |
| Heavy manufacturing | -0.2 per cent | | |

*Source: Author's calculations*

### Table 2. Welfare impacts for India (% change from BASE)

| | TPP | TTIP | EU-ASEAN | ALL 3 PTAs | MLTL |
|---|---|---|---|---|---|
| Aggregate welfare (US$ millions) | -322 | -408 | -336 | -757 | 21,216 |
| Welfare as % of GDP | -0.03 | -0.03 | -0.03 | -0.06 | 1.68 |
| GINI index | 0.0036 | 0.0041 | 0.0029 | 0.0082 | -0.0666 |
| Poverty head count | 0.3 | 0.5 | 0.2 | 0.8 | -12.3 |
| Poverty gap | 0.5 | 0.5 | 0.5 | 1.2 | -16.0 |
| Poverty FGT index | 0.8 | 0.8 | 0.8 | 1.6 | -17.9 |

*Source: Authors*
*Note: Aggregate welfare is reported in US$ million and as a % of GDP in the scenario. The inequality poverty measures are percentage change from BASE levels.*

liberalisation under the WTO compared to all other scenarios. In particular, under this scenario, aggregate welfare improves by 1.7 per cent of total GDP, inequality falls by over half a percentage point and poverty head count decreases by 12.3 per cent.

Furthermore, the welfare gains arising from multilateral liberalisation appear to be more favourable than the scenario where India takes unilateral tariff liberalisation. According to the model analysis, India stands to make welfare gains of about US$7.5 billion, compared with US$ 21bn under the multilateral scenario. Much of these gains would come from extraction (US$3 billion) and processed food sector (US$2.2 billion). India is also expected to see welfare losses in meat and livestock, textiles and wearing apparel, and light and heavy manufacturing.

The changes in India's exports under different scenarios may affect demand for domestically made products with associated consequences on outputs, product prices, factor prices, factor returns, and income generation, which in turn can trigger second round impacts on domestic demand, outputs, and prices.

Similarly, changes in imports affect domestic availability, domestic prices and hence demand for various goods. The model took these effects into account. However and importantly, the dynamic effects of any trade policy change, whether in India or external to the country, and the impact of

**Policy recommendations**

- The results of the modelling simulations suggest that India should continue advocating for global trade rules to be negotiated and agreed in a multilateral platform, ie. the WTO.
- In parallel to the multilateral level, especially considering the slow rate of progress in the Doha Round of multilateral trade negotiations, India should aggressively pursue new and comprehensive trade agreements, in addition to current arrangements, with members of the three mega RTAs, such as the on-going RCEP negotiations.
- These agreements should go beyond tariffs and trade in goods, and should cover trade in services, investment, competition, intellectual property rights (IPR), among other areas.

standards and non-tariff measures were beyond the scope of this GTAP analysis.

## Stakeholder views

In conversations and interviews with about 60 stakeholders[5] in Mumbai, Chennai, and Kolkata, where about 70 per cent of India's trade takes place, the study gained valuable insight from those with high exposure to the TPP and TTIP regions. The sectors included textiles, automobile, and agricultural products.

Although small traders demonstrated minimal knowledge about the mega RTAs; policy-makers, government officials, researchers, and trade bodies proved to have a good understanding of the agreements. Large traders even have dedicated research divisions for global trade developments. However, utilisation of trade agreements was still found to be low, where traders used traditional markets and well-established contacts instead. Many stakeholders pointed out that due to India's bilateral trade relations with many TPP member countries, India may not be as drastically impacted.

Both policy-makers and government officials raised the concern of outflow of capital and relocation of production from India into TPP members. Given the size of the market, both the TPP and TTIP will have influence on the sentiments of the global investing community. Foreign direct investment (FDI) flow could be redirected to these regions that may have a more conducive trade and investment environment stemming from mega RTAs.

Government officials, trade bodies, and policymakers also stated that there are a large number of non-tariff barriers which Indian products are facing from TPP and TTIP countries. Higher regulatory standards negotiated under these mega RTAs will act as further barrier to India's exports. Moreover, the influence of mega RTAs may result in the creation of a dual regulatory regime in developing countries, one for mega RTA members and another for the rest of the world.

Under these circumstances, large exporters will likely have the resources to adopt the complex regulatory standards in these markets while small exporters will face much more difficulties in adhering to these standards. This may be detrimental to a large number of small and medium enterprises (SMEs) in India that play a pivotal role in the Indian economy.

## New trade rules and India's domestic reform opportunities

The mega RTAs portend an overhaul of the language of market access by redefining the extant rules of trade. They propose to be comprehensive in their coverage by disciplining areas which are not presently dealt by the WTO. It is now becoming abundantly clear that, for the excluded countries, the shocks caused by further tariff liberalisation will be far less palpable than those transmitted by these 'WTO-plus' and 'WTO-extra' rules. The pressure of adhering to these new rules can be used by India as an opportunity to upgrade and harmonise certain domestic rules and standards which will facilitate and increase trade.

Mega RTA rules on sanitary and phyto-sanitary (SPS) measures and technical barriers to trade (TBT) will assimilate the burgeoning class of voluntary standards which have already started guiding procurement decisions in value chains and consumer preferences in advanced countries. Emphasis will be placed on regulatory coherence which would entail systemic changes to the bureaucratic structure. There are proposals to completely prohibit export subsidies and trim subsidies that have negative externalities on the environment. There might be stricter rules to determine countervailability and/or anti-dumping action.

The Rules of Origin (RoO) at the TPP will be determined in a manner that will ensure fuller integration of the United States (US) in regional production networks of Asia and the Pacific. The value addition threshold, pre-empting the possibility of trans-shipment through China or India, will be restrictively defined. With regard to market access in farm products, it is unlikely that the US or EU would change their farm policies

**Policy recommendations**

- There is the need to ensure greater participation of various stakeholders and improvement of their knowledge base about bilateral/regional preferential trade agreements through outreach, capacity building activities, and participatory initiatives with the government.

- The imperative is to build inclusive coalitions at the multilateral and even regional level, with members and non-members of mega RTAs that share similar concerns as India, to promote a more balanced international trade regime that works towards opening markets and supporting domestic industries that require time to prepare for greater foreign competition.

- By creating an enabling environment in the domestic market, India can improve the competitiveness of the Indian industry and hence, greater participation in regional and global value chains (GVCs) by moving beyond commodities and intermediate goods and producing high-value products.

- Much work is needed at the multilateral level through the recently concluded Trade Facilitation Agreement and at the national and local level to improve trade-related infrastructure, including ports, roads and railway networks. In doing so, India can reduce transaction costs incurred by Indian traders while responding efficiently to international market demands.

- India's approach to open new and expanded trade ties with countries needs to realign with the objectives of India's trade policy and other macroeconomic policies.

**Policy recommendations**

- A strategic roadmap for standards that is harmonised with 'Make in India'.
- The government should prioritise sector-specific regulations to ensure mandatory compliance with SPS and TBT requirements.
- The aspirations of industries, exporters and other relevant stakeholders should be assimilated while setting standards. India should also focus on gathering economic intelligence on standards that the industries or governments of advanced countries are developing.
- A uniform approach while formulating RoO in India's trade negotiations could considerably improve the utilisation rate of FTAs and strengthen India's pursuit to become integrated into global production networks.
- By gradually phasing out export subsidies and rationalising export promotion schemes, India could transform its irregular subsidies into environmentally-sound subsidies and better targeting of the beneficiaries.
- A stable agricultural trade policy that is predictable and not reacting to the vagaries of global markets can give further impetus to India's food processing sector. Being a crucial player in certain farm products, India will have to exercise caution in its use of export prohibition and quotas.
- New dimensions in anti-dumping jurisprudence could find reflection in India's trade policy and trade agreements. A distinction could be drawn between discriminatory price policies that are driven by predatory, monopolistic tendencies and those that could be beneficial to consumers in the long run by enhancing productivity and efficiency.
- Electronic filing of bills of entry (BOE) and declarations should be made the norm and the customs gateway (ICEGATE) could work toward seamless and undisturbed connectivity to traders for uploading their documents.
- Reforms to road and rail infrastructure targeting bottlenecks that impede freight transportation through the route of public-private partnership can be actively pursued to step up infrastructure development.
- Keeping in mind India's development objectives and its role as the 'pharmacy of the developing world', India should refrain from aligning its IP provisions with the mega RTA standards.
- India's FDI policy and the Reserve Bank's monetary policy should be accordingly attuned to address the capital requirements in infrastructure.

considering that they see mega RTAs as a sort of backdoor rule-making with minimum compromises in areas where they have defensive interests.

Mega RTA rules pertaining to export restrictions seek to undercut the General Agreement on Tariffs and Trade (GATT) exceptions to the ban on quantitative export restrictions. This could severely limit the policy space to impose checks for price stabilisation or domestic supply shortages. The rules will also try to break new ground in the area of social standards. Other than delineating the ambiguous relationship between trade sanctions contained in Multilateral Environment Agreements (MEAs) and WTO laws and ensuring enforcement of core labour standards contained in International Labour Organisation (ILO) conventions, social standards could well be the key determinants of accessing the markets of mega RTA countries.

The TPP chapter on trade facilitation would seek to improve the efficiency of border procedures with the use of cutting-edge technology and by dismantling unnecessary bottlenecks. Broadly, the mega RTA rules will bring an increased emphasis on risk management techniques, advance rulings, and uniformity in appeal procedures.

Intellectual Property (IP) provisions in TPP will most likely upset the balance that was achieved by the WTO TRIPS Agreement and the Doha Declaration on TRIPS and Public Health. It is expected that the TPP will go beyond the extant multilateral legal framework in areas like data exclusivity, patent linkage, trademarks, and trade secrets. The proposal made by the US and Japan with regard to the 'subject matter of patentability' specifically targets India's domestic law (Section 3(d) of Patents Act, 1970) that prevents the practice of patent ever-greening and reduces the patentability threshold of an invention. Similarly, IP-related border measures envisage seizure of 'confusingly similar goods' that are in transit. Such measures could impede the legitimate trade in generic drugs. On the other hand, the TTIP is unlikely to have a comprehensive chapter on IP provisions. Instead of attempting to harmonise their IP regimes, the EU and US may focus on enforcing their IP rights in third countries.

The TPP and TTIP negotiations are aiming to administer regulatory disciplines in service sectors that were hitherto left untouched such as air traffic rights, maritime transport, and some professional services. It will delve into cross-cutting issues which have ramifications across sectors and treat the

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different modes of delivery separately. The investment chapter will direct capital flows to countries which are party to mega RTAs with strict investment regimes, which can afford better protection to investors and have liberalised capital account regimes.

While dealing with the impact of mega RTAs, there are several critical issues that India has to consider. India should remain cautious of the direct effect on trade diversion caused by these new rules but also of the efforts by advanced countries to capitalise on these early agreements by making them a template for future discussions and negotiations at the multilateral level. The extent to which TPP and TTIP rules would influence negotiations at RCEP, to which several members of TPP are also party, is yet another important matter to ponder over.

India has to look at the potential challenges emanating from mega RTAs as a window of opportunity to undertake sweeping institutional and organisational reforms at the domestic level to ensure unobstructed and improved market access. It has to leverage the mega RTAs to initiate these reforms to attract investment, promote the transfer of technology, upgrade its standards regime, integrate into value chains, and set the stage for an export- and FDI-oriented growth. In short, there is an opportunity to transform India's trade and trade-related FDI regime from being export-import neutral.

## External trade engagements

A multi-pronged approach at the bilateral, regional and multilateral level to update its trade standards on its own terms, rather than pressured from mega RTAs, could give India the diplomatic flexibility to negotiate standards that are proportional to what can realistically be achieved based on pertinent economic and development needs. These markets can also be tapped as suppliers of intermediate goods and inputs that could complement India's manufacturing and trade policy[6]. Strategic external trade engagements can also give the Indian economy and affected stakeholders' adequate timeframes to implement necessary reforms.

### Bilateral and regional engagements with mega RTA partners

India has 15 active trade agreements; another 14 are being negotiated. In the context of the looming challenges from mega RTAs, India has the opportunity to remain engaged through its existing FTAs as well as deepen relations with mega RTA members, including integration into ASEAN production networks that address market access on trade in goods and advance its partnerships in trade in services and investment. India's future RTAs with TPP countries like Australia, Canada, and New Zealand provide an opportunity to align its trade standards and modalities as well as propose mitigating measures while maintaining realistic expectations for India's industry. Importantly, though, will be the effective implementation and follow-through for all agreements and their individual modalities.

India's active participation in the G20 provides an opportunity to engage with many members of mega RTAs. This and other plurilateral forums, such as the Asia Pacific Economic Cooperation (APEC) and Pacific Alliance, can provide the space for dialogues on India's stance concerning the impact of mega RTAs on non-member countries. Opportunities exist to integrate further with the Pacific Alliance group through a Comprehensive Economic Cooperation Agreement (CECA) once preconditions are met[7].

### Alternative market opportunities

There is significant opportunity for new and expanded markets and for entering regional and global value chains in many regions, including Latin America, Central Asia, Eastern Europe, and Africa. This can be done while remaining engaged in India's established trade relations with partners involved in mega RTAs.

Currently, India's trade agreements in Latin America are with Chile and the Southern Common Market (MERCOSUR). Preferential trade agreements have been proposed or under consultation with Colombia, Peru, Uruguay and Venezuela. Countries such as Colombia, Mexico, and Trinidad and Tobago are key energy exporters, with India being Colombia's second largest oil export destination.

The Eurasian Economic Union (EAEU) and Central Asian countries offer India another opportunity for greater economic integration in new markets. India is about to enter into negotiations with the EAEU for a Comprehensive Economic Cooperation Agreement. India should fully exploit its access to the International North-South Trade Corridor to enhance its trade and investment relations with the EAEU and Central Asian countries including through long-term, product-specific agreements to access strategic commodities such as oil and natural gas, uranium and potash.

Finally, there is a wealth of opportunity in trade with many African nations and regional economic communities in Africa, including the East African Community (EAC), the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC). Specific products and services originating in India can gain better access to numerous markets in Africa and potentially contribute to development agendas in African countries and regions. Thus deepening political and cultural relations for a sustainable future partnership. The recently negotiated Tripartite FTA among the EAC, COMESA and SADC is an opportunity that India should explore.

### Opportunities at the multilateral level

The WTO is the most optimal forum for India to put forward its concerns, preferably collectively in issue-specific coalitions, and work with trade partners to find balanced, multilaterally agreed deals on various trade and development-related issues. The WTO platform provides India with an equal voice to raise its concerns and propose solutions to trade and development-related issues. With the comprehensive structure of the Doha Development Round, India has a stage at the multilateral level to ensure its economic interest and development needs are heard.

**Policy recommendations**

- Comprehensive feasibility studies of potential FTAs will be required to assess the likely benefits for India's economy and development needs in deepening trade relations with mega RTA members.
- Potential markets and opportunities in Latin America include accessing energy products (e.g. Costa Rica, Mexico, Nicaragua, and Panama)[8], agro-industry machinery as well as tapping into certain countries' knowledge of conditional cash transfer programmes for low-income families (e.g. Brazil's 'Bolsa Familia' programme).
- Trade in services, especially information technology (IT), is also an area where India can deepen its trade relations with Latin America.
- India should actively pursue its CECA negotiations with the Eurasian Economic Union and should fully exploit its access to the International North-South Trade Corridor.
- India should aggressively pursue linking its services industries, where it has strong comparative advantages, with manufacturing and commodity processing in the Central and Eastern European regions.
- Many African countries are rich in natural resources, which can help India in sourcing strategic commodities on a sustainable basis, including oil, natural gas, coal, coking coal and uranium, as well as provide its high-skilled services to facilitate trade in those commodities.
- India's trade policy should focus on balancing its participation in GVCs between high-value, high-skilled sectors and low-value, low-cost sectors of the value chain, thus broadening its trade portfolio at both ends of the value chain.
- Through active engagement and even leadership in the G-20 and G-33 group of developing countries at the WTO and building coalitions toward finalising negotiations based on the Bali Ministerial decisions and other issues of the Doha Development Round, India should pursue a balanced, multilaterally-agreed trade regime in the context of the potentially threatening new standards and rules being developed in mega RTAs.
- India's diplomatic strategy at the WTO should take into account the possibilities of upgraded, and even exclusionary, mega RTA-influenced standards becoming engrained in the multilateral system.

Mega RTA rules might eventually be imported into the multilateral platform of the WTO. This will reduce the space for negotiations by countries excluded from mega RTAs as they have to negotiate a text already agreed by many influential WTO members at another level.

## Regional Comprehensive Economic Partnership of Asia and the Pacific

Currently, India is playing a major role in the crafting of the Regional Comprehensive Economic Partnership (RCEP) agreement among 16 countries of Asia and the Pacific[9]. In the context of the looming impact of mega RTAs, and considering that not all issues of trade-related development interests are being addressed in those negotiations, the RCEP is another crucial opportunity for India to incrementally meet the higher standards promoted in mega RTAs while ensuring support for its domestic constituencies and development dimensions of trade

India is encouraged to play an active role in setting the trade rules to place itself in a strategic position for upgrading its own standards as well as start to prepare for the eventuality of higher mega RTA-influenced standards brought to the WTO.

India has indicated its interest in increasing trade in services, removing non-tariff barriers as well as specific interest in trade in goods, such as pharmaceuticals and textiles, and attracting investment inflow and outflows[10].

As negotiations currently stand India is prepared to reduce tariff rates to 70 per cent of tariff lines for ASEAN members, while the rest of the RCEP members would receive 40 per cent tariff lines cut[11]. To assist domestic industry in adapting to new tariff cuts, categories of tariff lines could be reduced in an agreed timeframe over multiple intervals, similar to that of the India-Korea FTA. Furthermore, India's comparative and competitive advantage in many service sectors has not been met with adequate coverage in its existing FTAs and that is to be ensured in RCEP.

Preparing for the eventual stringent regulations on IPRs, India can begin to upgrade its own domestic IP policy, for example by beginning to relax copyright rules on certain products such as music or film while ensuring continued support for its generic medicines through reasonable patent lifetimes. India can act as a rule-setter on this specific area.

Moreover, agreeing to more open RoO criteria than its previous FTAs[12] and including product-specific rules for targeted items could give India the balanced approach to liberalise its markets while continuing to support certain domestic industries.

## Conclusions

Due to the comprehensive and expansive mandate undertaken by the TPP, TTIP, and EU-ASEAN FTA, mega RTAs have the potential to impact India through trade diversion and erosion as well as placing pressure on India to liberalise markets for

**Policy recommendations**

- India can include extended phase-in periods in the agreement of tariff reduction as a way to encourage competition and domestically address various types of anti-competitive market distortions while supporting domestic industries by giving them time to adapt.
- India can negotiate for greater openness in trade in services in all four Modes, particularly finding expanded avenues of trade (in addition to traditional IT and IT-enabled services) in tourism and hospitality services as well as business and cultural relations, including free movement of professionals and educational exchanges.
- In working with its RCEP partners on rule of origin, India can agree on criteria used by the majority of the RCEP membership, specifically allowing an option of either value-added content or change in tariff classification rather than the dual criteria requirement.
- India can offer product-specific Rules of Origin on a case-by-case basis that will prudently leverage support to India's manufacturing policy, such as 'Make in India'. Such specific rules may also aim to funnel other quality material from its RCEP partners that support its domestic producers and eventually tie with India's export of intermediate and finished products.
- India can begin to upgrade its own domestic IP policy through relaxation of targeted copyright rules and ensure continued support for its generic medicines by addressing patent lifetimes and other measures.

trade in goods and services, and raise standards where it may not be prepared to do so.

Considering that TPP and TTIP members account for more than 40 per cent of both India's imports and exports, tariff preferences created by these mega RTA are likely to divert trade from non-members to trade among mega RTA countries resulting in loss of market share for India. This scenario is supported by the economic modelling in the study. It reveals that the impact is generally less severe than expected, although particular products in which India relies on mega RTA countries substantially for trade have the potential to experience greater market loss, such as grains and other crops, processed food, textiles and wearing apparel, and light and heavy manufacturing. Furthermore, given India's links to GVCs through service exports, even in the case of mega RTA-led value chains, there is a high level of potential implications particularly related to market access of services.

Since many of the mega RTA countries already enjoy low tariff rates with their trade partners, significant impact is expected to come from the new and upgraded trade standards and regulations promoted in these agreements. Mega RTAs may re-orient standards of trade that advantage their members by paving the way to easing of compliance, streamlined customs administration, and improvements in infrastructure as well as higher labour and environmental standards that would likely to divert Indian exports that cannot comply with such standards of mega RTA members.

Finally, given that almost 60 per cent of India's GDP is tied to the services industry, a large portion being in IT and IT-enabled services, the regulatory harmonisation expected to be enacted in mega RTAs could greatly harm India's competitive edge in these sectors. Competitors in Southeast Asia such as Indonesia, Malaysia, and the Philippines will have the opportunity to develop stronger IT sectors under such favourable conditions that trade in services from India could be diverted.

In this context of impending challenges from mega RTAs, including the potential for higher standards incorporated at the multilateral level, there is enormous opportunity for India to go beyond general economic growth and move towards deeper integration into regional and global value chains to produce high-value products, create new trade relations, craft structural reforms, and enhance domestic standards while maintaining support for India's industry, its workers, and other vital development objectives such as poverty reduction.

Indeed, for the first time, the Foreign Trade Policy 2015-20 views trade as a significant part of achieving security and strategic objectives in the long-term, and integrates trade into India's national development policies[13].

As India embarks on diplomatic and policy recourse towards the potential impact of mega RTAs other developing countries could find lessons from India's case and create their own opportunities for economic and development growth. Similar to India, other low-income, resource-poor developing countries (including least developed countries) will need to strategise liberalising their markets while continuing to support domestic industries.

Further study will be needed to identify which sectors of each economy are prepared for greater competition and which require time for development. In sub-Saharan Africa, Latin America and Central Asia, economic communities and customs unions can be advantages for greater integration to help mitigate potential trade diversion. Through domestic policy reforms and with the assistance of programmes such as Aid for Trade and direct aid initiatives from mega RTA members, developing countries can identify where they need to upgrade their trade standards and improve infrastructure to cut cost.

In this respect, India can offer 'knowledge' and, therefore, other than trade and investment, 'knowledge-sharing' should become an important component in India's future comprehensive economic cooperation agreements with many of those other developing countries.

To conclude, a balance will be required in both domestic reforms and India's engagements at the bilateral, plurilateral, and multilateral levels to ensure that India is well-placed to partake, and indeed prosper, in the international trading system while maintaining strong support for its domestic industries and development objectives.

India can achieve this through its active participation as a rule-setter in the RCEP through targeted domestic policy reforms, improved trade infrastructure, continued with alternative bilateral and regional trade engagements, and building an inclusive coalition of developing and least-developed member countries at the WTO to address the evolving international trading system that encompasses mega RTAs, including RCEP. ■

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*† Contribution to this article was made by Surendar Singh, Policy Analyst; Neeraj R S, Research Assistant; and Sara Núñez Évora, Assistant Policy Analyst, at CUTS International.*

*1. Chapter 1: Economic Outlook, Prospects, and Policy Challenges, Economic Survey 2015-2015, pp. 34-37.*
*2. Foreign Trade Policy Statement, Government of India, pp. 18-19.*
*3. The Government of India unveiled the Make in India programme on September 25, 2014 to attract investments from businesses around the world, and in the process, strengthen India's manufacturing sector.*
*4. The simulations focused explicitly on effects from tariff and export subsidy elimination in merchandise trade. Analysis of non-tariff measures and investment flows were beyond the scope of the modelling tools.*
*5. Traders, government officials, policy-makers, academician/researchers, and representatives of trade bodies.*
*6. Foreign Trade Policy Statement, Government of India, para. 12 and 67.*
*7. India must have at least three free trade agreements with Pacific Alliance members before attempting a CECA with the full group. India currently has an FTA with Chile. Other members are Colombia, Mexico and Peru. Chile and Peru are part of the TPP.*
*8. Dolezal, et al., 'The Way Forward for Renewable Energy in Central America', World Watch Institute, June, 2013.*
*9. These are: the 10 ASEAN members (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and Australia, China, India, Japan, New Zealand, and South Korea. It was an ASEAN initiative and has members with whom ASEAN has FTAs.*
*10. Mishra, Asit Ranjan, 'RCEP pact: India set to host regional trade deal talks in Dec', Live Mint, June 10, 2014.*
*11. Seth, Dilasha, 'India offers wider duty cuts at Regional Comprehensive Economic Partnership, The Economic Times, February 18, 2015.*
*12. India's FTAs with ASEAN, Malaysia, Japan, and South Korea require both value-added content and change of tariff classification.*
*13. Foreign Trade Policy Statement, Government of India, paragraphs 4 and 5.*