

# Preferential Trade Agreements

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*While remaining committed to multilateralism, India like many other countries, has negotiated a series of free trade agreements (FTAs), notably with trading partners in Asia. Since the mid-2000s, India's FTAs have doubled to about 42 today. At a time of seismic changes in the international landscape in the form of mega-regional agreements, involving the largest traders—USA, Japan, and the European Union—we review the experience of a few of India's FTAs. Using updated data and methodologies, we find that the economic impact is what might be expected. FTAs have led to increased imports and exports, although the former has been greater. We find that the average effect of an FTA is to increase overall trade by about 50 percent over roughly four years. We also find that the ASEAN FTA has had the greatest impact, possibly because tariff reduction by India has been greater under it. The results also suggest a bigger impact on metals on the importing side and textiles on the exporting side. More work is required to enrich this analysis and to extend it to services so that a definitive assessment can be made of the overall impact of India's FTAs.*

## INTRODUCTION

8.1 Preferential Trade Agreements (PTAs) have been proliferating, especially since the establishment of the World Trade Organisation (WTO) in 1994. As of 1st December 2015, the WTO had received notifications of no less than 619 PTAs (disaggregated by goods, services, or accessions), of which 413 were already in force. Clearly, then, PTAs are popular. But are they economically beneficial? More specifically, have the PTAs signed by India been good for the country? This chapter examines the evidence and considers the implications for trade strategy going forward.

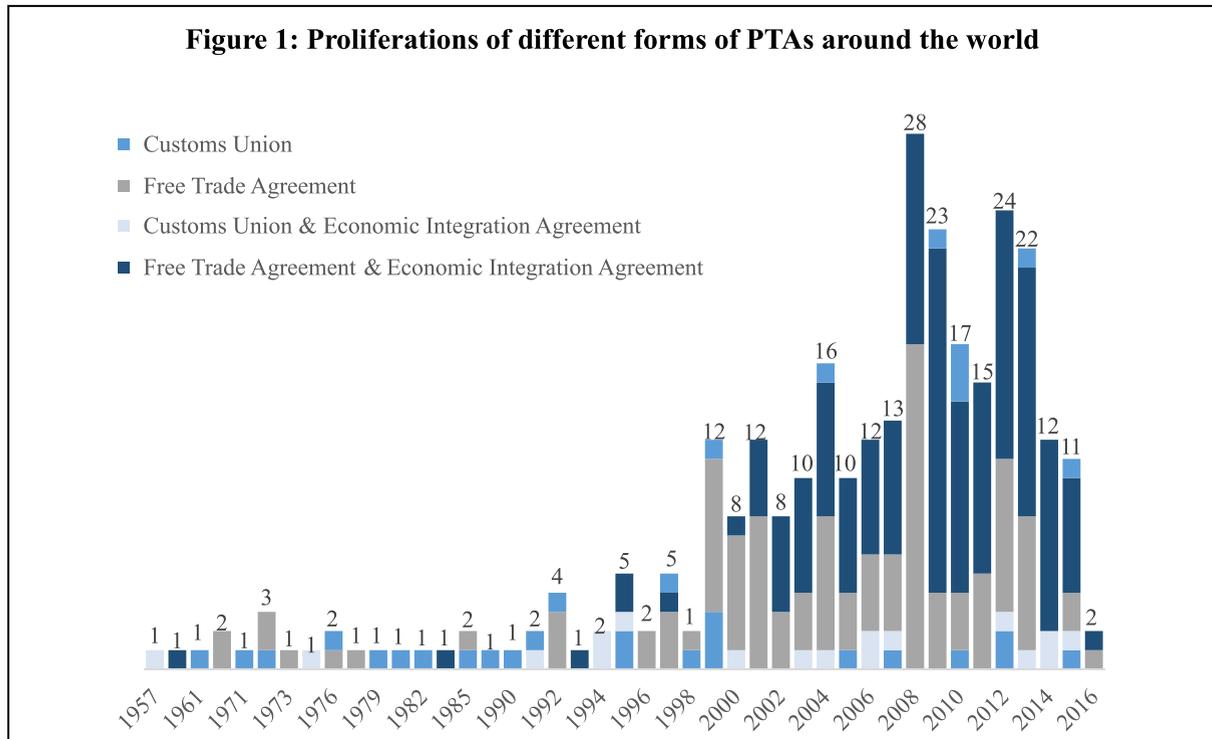
8.2 Figure 1 traces the trends in PTAs around the world. Between 2008 and 2012, PTAs grew at an average year-on-year rate of 24 percent. All WTO members except

Mongolia have concluded at least one PTA, while some, such as the European Union, Chile, and Mexico, have concluded more than 20. In the mid-1990s, about 75 percent of PTAs were regional; by 2003, this share had dropped to about 50 percent

8.3 Within the broad category of PTAs, one can distinguish five forms, listed below, with each subsequent arrangement being a deeper form of integration, requiring more coordination and a greater loss of autonomy

- A. *Partial Scope Agreement (PSA)*: A PSA is only partial in scope, meaning it allows for trade between countries on a small number of goods.
- B. *Free Trade Agreement (FTA)*: A free trade agreement is a preferential arrangement in which members reduce tariffs on trade

**Figure 1: Proliferations of different forms of PTAs around the world**



among themselves, while maintaining their own tariff rates for trade with nonmembers.

- C. *Customs Union (CU)*: A customs union (CU) is a free-trade agreement in which members apply a common external tariff (CET) schedule to imports from nonmembers.
- D. *Common Market (CM)*: A common market is a customs union where movement of factors of production is relatively free amongst member countries.
- E. *Economic Union (EU)*: An economic union is a common market where member countries coordinate macro-economic and exchange rate policies.

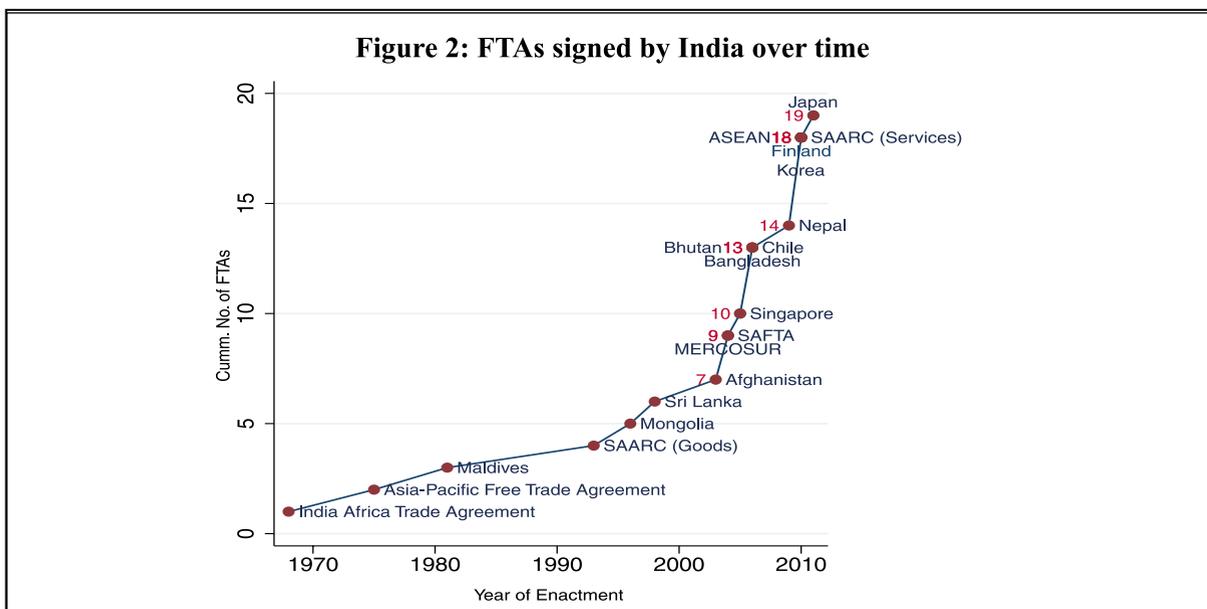
**INDIA AND FREE-TRADE AGREEMENTS**

8.4 In addition to its long-standing commitment to multilateralism under WTO agreements and in line with global trends, India has made use of FTAs as a key component of its trade and foreign policy, especially from 2003-04 onwards (Figure 2).

8.5 Hitherto, India has mainly focused on

partnering with other Asian countries, and in goods more so than in services. Within Asia, India has signed bilateral FTAs with Sri Lanka (1998), Afghanistan (2003), Thailand (2004), Singapore (2005), Bhutan (2006), Nepal (2009), Korea (2009), Malaysia (2011) and Japan (2011). There have also been two regional trade agreements, the South Asian Free Trade Agreement (SAFTA, 2004) and the India-Association of Southeast Asian Nations Agreement (ASEAN, 2010). Outside Asia, FTAs have been agreed with Chile (2006) and MERCOSUR (2004).

8.6 The depth of integration offered by these FTAs both in goods and services is highlighted in Table 1 and Table 2. An earlier study on FTAs commissioned by the Ministry of Finance and authored by Rupa Chanda of the Indian Institute of Management, Bangalore notes that there are differences in the coverage of products and degree of integration across recent FTAs. For example, the India-Korea CEPA contains chapters on Origin Procedures, Telecommunication and Audio-Visual Co-production, but these are not included in the India-Japan CEPA. On



the other hand, the India-Japan agreement has chapters on Technical Regulations, Standards and Conformity Assessment Procedures and Sanitary and Phytosanitary Measures, Government Procurement and Improvement of Business Environment but these chapters are not included in the India-Korea CEPA. In

other words, all FTAs are not the same, and these differences need to be recognized when analyzing their impact.

### MEGA-REGIONALISM

8.7 Recently, PTAs have begun to morph into mega-regional agreements, which would

**Table 1<sup>1</sup>: Degree of Integration for Goods Trade under major FTAs**

Scope of Chapters	Korea CEPA	Singapore CEPA	Japan CEPA	ASEAN
<b>FTA</b>				
National Treatment	√	√	√	
Rules Of Origin	√	√		√
Non-tariff Measures	√	√		√
Customs Value	√	√	√	
Customs Duties	√		√	√
Exceptions	√	√		
Classification	√	√	√	
Trade Remedies	√			
Anti-dumping	√	√	√	
Safeguard Measures	√	√	√	√
TBT And SPS Measures	√			
Subsidies And Countervailing Measures	√	√	√	√
Tariff Reduction Tracks				√
Exchange Of Information And Petition	√	√		
Import Export Restrictions			√	

<sup>1</sup> Chanda, Rupa. Indian Institute of Management Bangalore. November, 2014. *Impact Analysis of India's Free Trade Agreements*. Submitted to- Department of Economic Affairs, Ministry of Finance Government of India. Table 1.1, page 14.

**Table 2: Degree of Integration for Services Trade under major FTAs**

Scope of Chapters	Korea CEPA		Japan CEPA		Singapore CEPA	
	India	Korea	India	Japan	India	Singapore
Business Services	√	√	√	√	√	√
Communication Services	√	√	√	√	√	√
Construction And Related Engineering Services	√	√	√	√	√	√
Distribution Services	√	√	√	√	√	√
Educational Services	√	√	√	√		√
Environmental Services	√	√	√	√		√
Financial Services	√	√	√	√	√	√
Health Related And Social Services	√		√	√	√	√
Tourism And Travel Related Services	√	√	√	√	√	√
Recreational Cultural And Sporting Services	√	√	√	√	√	√
Transport Services	√	√	√	√	√	√

encompass a large share of world GDP and trade. Mega-regionals, in other words, are PTAs on steroids. The two major mega-regionals are the Trans-Pacific Partnership (TPP), which has been signed but not yet ratified by member countries, and the Trans-Atlantic Trade and Investment partnership (TTIP), which is currently being negotiated (Figure 3). The TPP comprises twelve member countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam, as shown in the map below. The TPP will cover 40 percent of global GDP<sup>2</sup> and 33 percent of world trade<sup>3</sup>.

8.8 TTIP, when concluded, will be a PTA between the United States and the European Community of 27 member states and representing “30 percent of global merchandise trade, about 40 percent of world trade in services, and nearly half of global GDP”<sup>4</sup>. India is not part of these groupings

(although it has its own PTAs with members of TPP and TTIP) and will hence be outside these large trade zones.

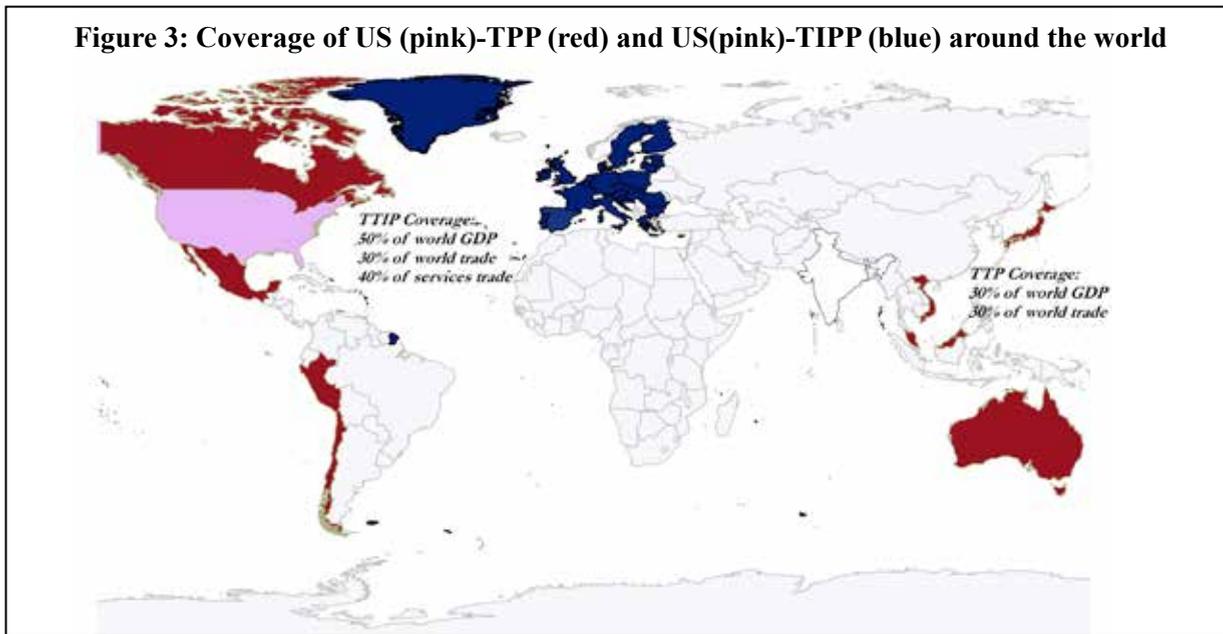
8.9 Consider the possible impact of the TPP. The World Bank estimates that by 2030 the TPP will raise member country GDP by 0.4-10 percent, and by 1.1 percent, on a GDP-weighted average basis, mainly owing to measures to reduce non-tariff barriers.<sup>5</sup> Vietnam and Malaysia would be amongst the TPP member countries benefiting the most. At the same time, the Bank also estimates that non-members will suffer a marginal reduction in GDP (Figure 4). For example, activity in Korea and Thailand could be set back as a result of shrinking market access and greater competition in export markets. Perhaps surprisingly, some non-member countries such as Russia could benefit, because standards in export markets will be harmonised. In India’s case, the effect on exports is marginally positive, but its effect

<sup>2</sup> Overview of the Trans-Pacific Partnership. United States Trade Representation (USTR). <https://ustr.gov/tpp/overview-of-the-TPP>

<sup>3</sup> The Trans-Pacific Partnership Trade Accord Explained. *New York Times*. Oct. 5, 2015. <http://tinyurl.com/q8lp1lf>

<sup>4</sup> European American Chamber of Commerce. <http://www.eaccny.com/international-business-resources/what-you-need-to-know-about-ttip/>

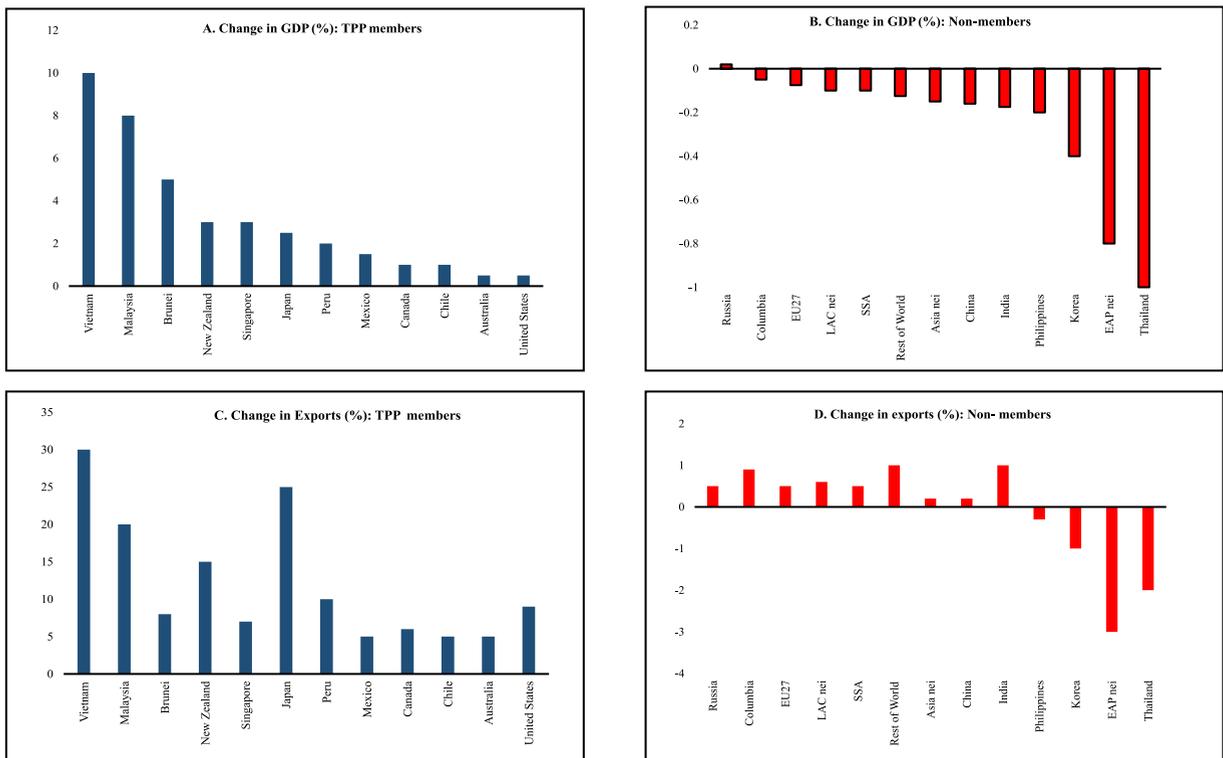
<sup>5</sup> Global Economic Prospects, World Bank. Potential Macroeconomic Implications of the Trans-Pacific Partnership, January 2016. <http://tinyurl.com/guyavpk>



on the country's GDP is about -0.2 per cent. Meanwhile, Petri and Plummer<sup>6</sup> (2016), suggest an increase of 0.3 per cent in real

income for members and a decrease of 0.1 per cent for India by 2020.<sup>7</sup>

**Figure 4: Estimated effects of FTAs on member and non-member countries**



<sup>6</sup> Petri, P.A. and Plummer, M.G.; The Economic Effects of the Trans-Pacific Partnership: New Estimates. Working Paper, Peterson Institute of International Economics. January 2016. <http://tinyurl.com/zr8w4j9>

<sup>7</sup> Real income gains are similar, but not identical, to gains in real GDP. The relationship between real GDP and real incomes depends on relative prices. For example, if the TPP lowers output prices relative to consumer goods prices, then a given GDP increase will correspond to a smaller real income increase.

## TO PTA OR NOT TO PTA?

8.10 Against this background of proliferating FTAs and the emergence of mega-regionalism, a review of India's FTAs is overdue. Any reduction in tariff barriers should spur trade between partners, by offering greater market access for firms and encouraging specialization within industrial subsectors. However, the impact of an FTA on the trade *balance* is unclear, as it may favor one region over the other. Similarly, the impact on welfare can be uncertain, as Jacob Viner's seminal analysis showed.<sup>8</sup> That's because FTAs, in contrast to unilateral trade liberalization, give rise not only to beneficial trade creation but also to trade diversion.<sup>9</sup> Trade diversion occurs when tariff preferences offered under an FTA causes a shift of imports from firms in non-FTA member countries to less efficient firms within the trade bloc, which now become competitive due to tariff reliefs.<sup>10</sup>

8.11 FTAs therefore require a careful empirical analysis, as their implications for the country's policy are wide-ranging. Do they actually improve welfare? Are the effects heterogeneous across the different types of FTAs, between imports and exports, or across subsectors?

Before we attempt to answer these questions, we briefly review the literature for India:

1. *Impact of India-ASEAN Free Trade Agreement: A cross-country analysis using applied general equilibrium modelling* (Chandrima Sikdar & Biswajit Nag. 2011, UNESCAP). The authors employ a CGE modelling framework to conclude that the trade balance for India after the ASEAN FTA became even more negative. In terms of exports, India obtained the largest market access

in Cambodia, Lao PDR, Malaysia, Philippines, Thailand and Vietnam.

2. *Impact Analysis of India's Free Trade Agreement* (Rupa Chanda. 2014, IIM Bangalore). The author, using a before and after comparison for selected commodities under selected FTAs, concludes that the country has not effectively made use of the trade agreements to increase its exports. The author finds a significant increase in imports through the Most Favoured Nation (MFN) route, and recommends "relaxation of structural and regulatory factors" to promote exports.
3. *India-Korea CEPA: An Appraisal of Progress* (V S Seshadri. 2015, Research and Information System for Developing Countries (RIS) Study): Meeting stakeholders, regulatory bodies, and officials in India and Korea, the author observes a heterogenous impact on exports. For agriculture in particular, the author reports negligible effects.
4. *Economy-wide Impact of the Trade Integration between Japan and India: A Computable General Equilibrium Analysis* (Biswa Nath Bhattacharyay and Kakali Mukhopadhyay. 2013) Using a CGE model, the authors estimate a marginal increase in output growth for India due to tariff reductions. Contrary to earlier studies, the authors also estimate greater exports from India and positive net welfare for both countries.
5. *Reassessing the impact of the ASEAN-India Free Trade Agreement* (Tham Siew Yean and Andrew Kam Jia Yi. 2014): Using a gravity model, the authors estimate an increase in GDP and bilateral

<sup>8</sup> Viner, Jacob. *The Customs Union Issue*. New York: Carnegie Endowment for International Peace, 1950.

<sup>9</sup> Krishna, Pravin. *Are Regional Trading Partners "Natural"?* 2012. *Journal of Political Economy*

<sup>10</sup> J J Schott. *Free Trade Agreements: Boon or Bane of the World Trading System*. Peterson Institute of International Economics (PIIE). <http://tinyurl.com/hqloq6t>

trade between the two regions. One of the biggest barriers to trade according to the study are distance costs.

## EMPIRICAL FRAMEWORK

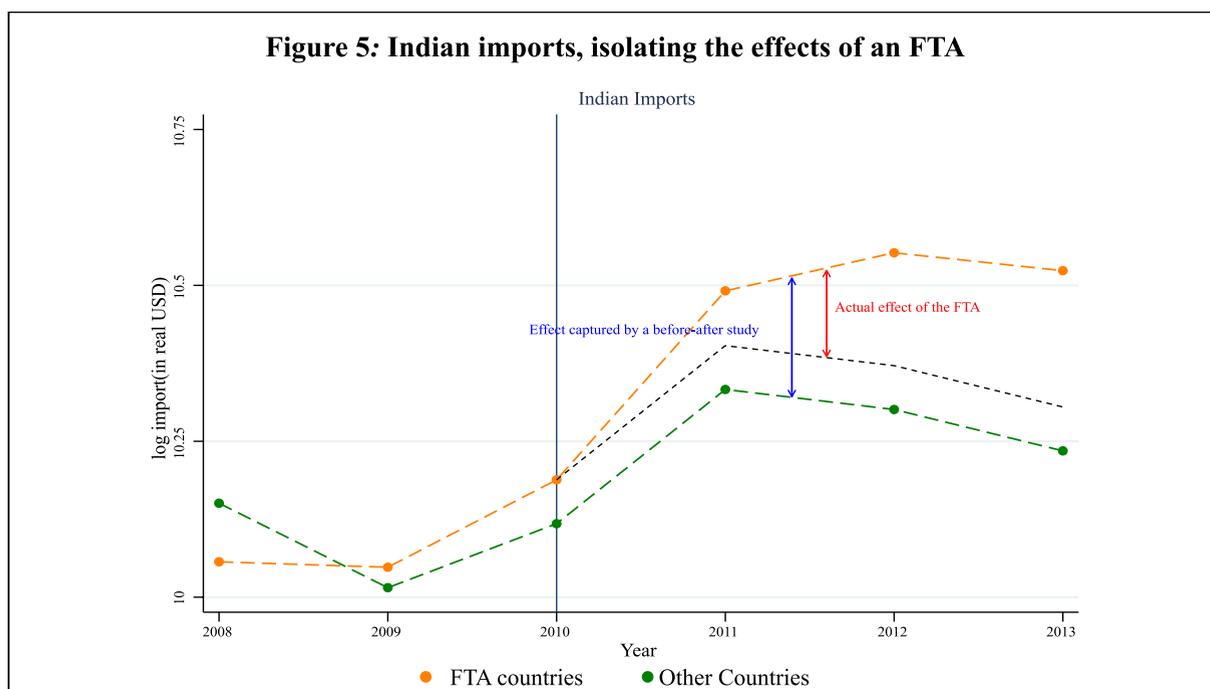
8.12 A second reason to review India's PTAs is that most studies on Indian FTAs are based on a simple analysis, a before-after study, which compares outcomes based on the pre-and-post effects of an FTA. The drawback of such an approach is that it fails to isolate the effect of the policy change from trends which would have happened even without the policy change. For example, trade between India and Korea could have grown post-2010 even in the absence of the FTA because of other reasons, including factors such as demand and supply conditions in the two countries.

8.13 We use instead a difference-in-difference<sup>11</sup> identification technique that will better help us isolate the effect of the FTA on trade, controlling for other confounding factors. The key idea is having a set of "control" countries which did not sign an FTA

with India and look at how trade with them evolved controlling for various parameters. This helps us construct a counterfactual for how trade would have evolved with FTA partners in the absence of the FTA. Comparing the true evolution of trade with FTA partners relative to the counterfactual allows us to isolate just the effect of the FTA.

8.14 For example, in the Figure 5 below, the orange line is log of Indian imports from FTA countries and the green line from non-FTA countries. The grey dotted line shows how imports from FTA countries would have evolved if they had followed the same path as imports from non-FTA countries. Comparing the orange to the grey line allows us to isolate only the effect of the FTA. In contrast, a comparison of the orange to the green line would overstate the effects of the FTA.

8.15 The next issue is to specify what parameters determine trade in the absence of an FTA. Here we rely on the gravity model of trade, which is arguably one of the most empirically robust relationships in economics



<sup>11</sup> See Angrist, Joshua D., and Jörn-Steffen Pischke. *Mostly harmless econometrics: An empiricist's companion*. Princeton University Press, 2008. and Plummer, Michael G., David Cheong, and Shintaro Hamanaka. *Methodology for impact assessment of free trade agreements*. Manila: Asian Development Bank, 2010. for details.

and is also well-founded in theory.<sup>12</sup> The gravity model, attributed to Tinbergen (1962), relates bilateral trade flows between countries to country-specific characteristics. The two basic axioms are that trade flows between countries are directly proportional to the “size” of the two countries - as measured by GDP - and inversely proportional to the distance between them. Distance is a proxy for all trade costs between countries, including not just transport costs, but also those related to language, currency, policy etc. The idea being that countries having a similar language, currency, political system or colonial links are more likely to trade with each other because all costs other than transportation will be lower.<sup>13</sup>

**BASIC FACTS AND TRENDS**

8.16 For the purpose of this analysis, we focus on three major FTA partners: ASEAN, Korea and Japan. We refer to these nations as FTA countries. The other countries are called non-FTA since the bulk of trade with

such countries is not under an FTA with India. Before we present the main results, we describe the broad trends in our data<sup>14</sup>.

8.17 Table 3 looks at three year year-on-year growth rates of imports and exports. As expected, post-FTA growth rate of exports and imports in FTA countries is higher than Non-FTA countries. Within the set of FTA countries, ASEAN growth rate of trade after the enactment of FTA is much higher than other FTA countries.

8.18 Average (simple averages calculated at a six-digit product level pooling export and import) pre-FTA tariffs (on India’s imports and its exports to partner countries) were similar for trade with FTA and non-FTA countries (about 8½ per cent) as shown in Table 4. Unsurprisingly, there has been a greater reduction in tariffs for FTA countries, with an average decline of about 3½ percentage points in tariff rates, mainly on account of reductions in Indian import tariffs. The ASEAN FTA has seen the largest decline

**Table 3: Trends in trade<sup>15</sup>**

Exports						
Years	Non-FTA Countries	FTA Countries	ASEAN	Japan	Korea	
2007-08	29%	29%	30%		14%	
2008-09	14%	13%	17%	-22%	38%	
2009-10	-4%	-4%	-5%	20%	-13%	
2010-11	41%	37%	41%	40%	9%	
2011-12	19%	38%	43%	24%	17%	
2012-13	-1%	-9%	-10%	-4%	-3%	
2013-14				12%		
Non-FTA Countries    FTA Countries    ASEAN    Japan    Korea						
<b>Pre FTA</b>	13%	13%	14%	13%	13%	
<b>Post-fta</b>	20%	22%	25%	11%	7%	
<b>Differences</b>	7%	9%	11%	-2%	-5%	

<sup>12</sup> Anderson J.E., Wincoop, E. van. Gravity with Gravitas: A Solution to the Border Puzzle. National Beureau of Economic Research (NBER). January 2001. <http://www.nber.org/papers/w8079>

<sup>13</sup> Appendix 4 of the Technical Appendix of Chapter-8 provides for a more detailed exposition of gravity’s empirical framework

<sup>14</sup> Appendix 4 of the Technical Appendix of Chapter-8 offers description of the data in greater detail.

<sup>15</sup> Source: Ministry of Finance, Government of India. Japan FTA starts in 2011-12, indicated with a kink in the tables

Imports					
Years	Non-FTA Countries	FTA Countries	ASEAN	Japan	Korea
2007-08	37%	27%	25%	25%	26%
2008-09	20%	22%	16%	25%	44%
2009-10	-5%	-4%	-2%	-15%	-1%
2010-11	29%	21%	19%	28%	22%
2011-12	32%	35%	38%	39%	22%
2012-13	0%	2%	2%	4%	2%
2013-14				-24%	

	Non-FTA Countries	FTA Countries	ASEAN	Japan	Korea
<b>Pre FTA</b>	17%	15%	13%	13%	23%
<b>Post-fta</b>	20%	19%	19%	6%	16%
<b>Differences</b>	3%	4%	6%	-7%	-7%

in India import tariffs (Table 5).

8.19 Figure 6 compares import flows for FTA and Non-FTA countries starting 2010.<sup>16</sup> As a first pass, the figure indicates an increase in the median log value of imports from FTA countries as compared to non-FTA countries (Figure 6a). The value of exports however appears to be similar for FTA and Non-FTA countries as show in Figure 6b.

**MAIN RESULTS**

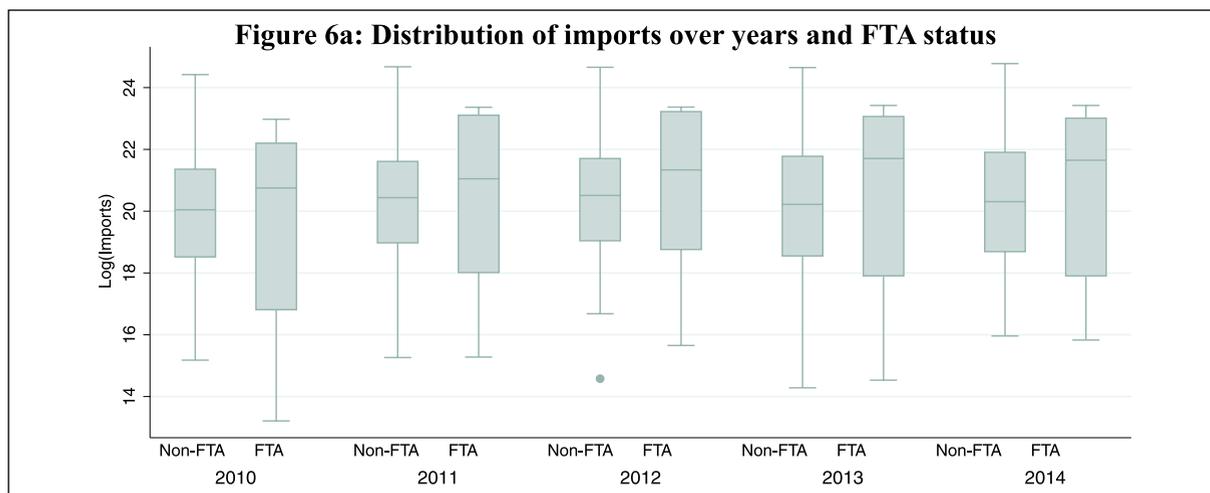
8.20 Now we consider our empirical findings regarding the impact of FTAs on trade. To preview the results, we find positive effects that are both substantial and persistent.

**Table 4: Average tariffs for overall trade**

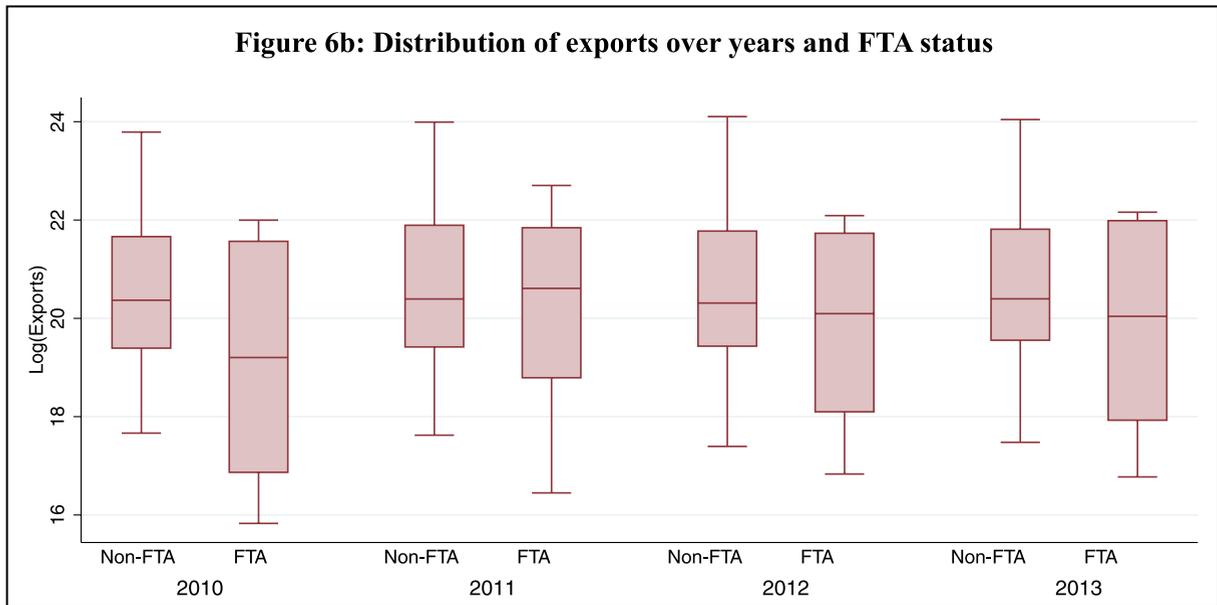
	Pre FTA	Post FTA
Non FTA countries	8.5%	7.7%
FTA countries	8.6%	5.0%

**Table 5: Average tariffs disaggregated into export and import flows**

	Imports		Exports	
	Pre FTA	Post FTA	Pre FTA	Post FTA
Non FTA	11.4%	10.1%	6.1%	5.4%
FTA countries	11.2%	5.8%	5.7%	4.0%
ASEAN	11.3%	4.7%	6.1%	4.0%
Japan	11.4%	7.5%	3.3%	3.5%
Korea	11.1%	8.3%	9.0%	6.0%



<sup>16</sup> The data for exports for both group of countries is unavailable in the BACI dataset for the 2014



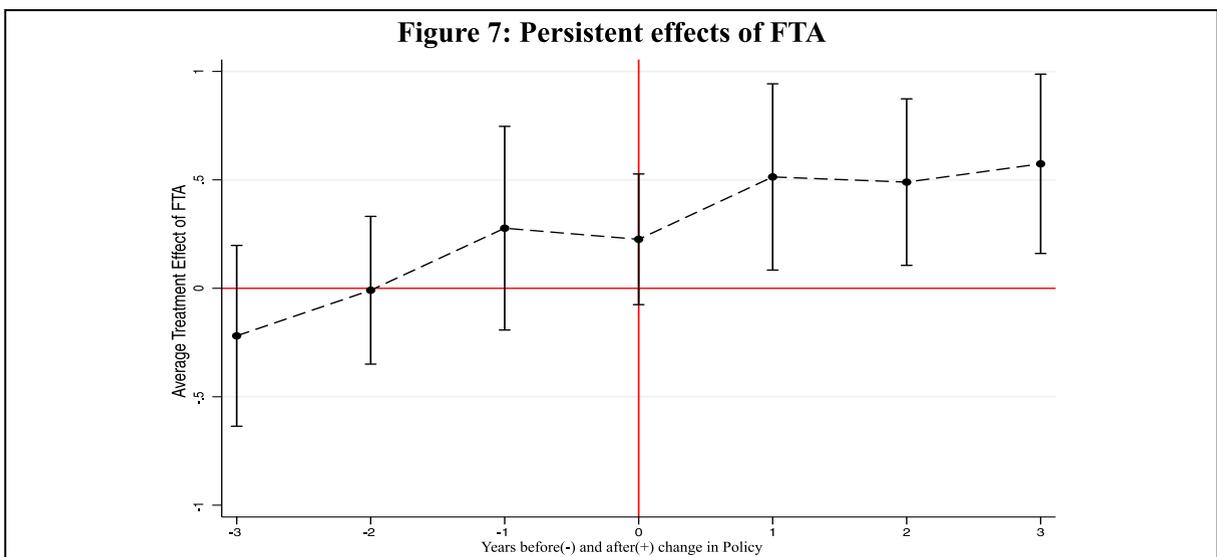
**1. Increased Trade**

The overall effect on trade of an FTA is positive and statistically significant. The regression results are reported in Table A1.1 in Appendix 1, Technical Appendix, Chapter-8.<sup>17</sup> The cumulative effect - between the year of the FTA and 2013 - on trade with ASEAN, Japan, and Korea is approximately equal to 50 percent. This is substantial. We

test whether India’s increased trade with FTA countries is due to diversion of imports from more efficient non-FTA countries and find that is not the case.

**II. Persistent Effects**

Figure 7 plots the FTA effect—and the statistical confidence interval—before and after FTAs are signed. The figure shows that within a year of the agreement coming into



<sup>17</sup> We should also note that in the basic regressions trade with Singapore is omitted. This is because pre-FTA Singapore had a zero MFN tariff on all but 5 product lines. Having Singapore in the sample could lead to spurious correlation with the FTA dummy and bias the estimates. In the “product” level regressions later, when we regress trade on applied tariffs, we do include Singapore, because the tariff variable can explicitly take this factor into account.

force, the effect of FTAs become positive and significant, with effects even increasing in the subsequent few years. The figure also indicates that the anticipatory effects of an FTA are minimal.

### III. *Especially for ASEAN FTA*

While ASEAN and the Korean FTA show statistically significant and positive effects on trade values, the effect of the Japanese FTA on trade is not statistically significant. However, this does not imply that the Japanese FTA did not have any effect—it could still have had an effect on specific product lines. We explore this possibility below. That said, the ASEAN FTA does seem to have the biggest trade impact, which makes sense, since this arrangement saw the greatest reduction in Indian import tariffs, as shown in Table 5.

### IV. *Especially for Imports*

Table A1.2 in Appendix 1, Technical Appendix, Chapter-8 compares FTA effects on exports and imports separately. They are of the order of 27 per cent and 63 per cent, respectively (on the import side, the result is robust to adding Singapore into the sample). In case of the ASEAN FTA, the country has benefitted on both sides of trade flows with a statistically significant 33 per cent increase in exports and 79 per cent increase in imports. The effect of the Korean FTA is insignificant, whereas, the Japan FTA has had a significantly negative effect on exports (a fall of 18 per cent) and a statistically zero effect on imports. Similarly, Table A1.3, Technical Appendix, Chapter-8 indicates that the effect of FTAs on imports as a share of total trade is statistically 7 per cent higher as compared to non-FTA countries.

### V. *Especially for Metals and Textiles*

In Table A3.1, Appendix 3, Technical Appendix, Chapter-8 we look at the effects

of FTA tariff reduction in four major sectors: textiles, metals, automobiles and machinery. The comparator group in this section consists of both non-FTA countries and all sectors other than the four major ones listed above.<sup>18</sup> The top and the bottom panels show results for imports and exports respectively.

On the import side, a ten per cent reduction in FTA tariffs for metals and machinery increases imports by 1.4 per cent and 2.1 per cent respectively, compared to other products from FTA or all products from Non-FTA countries (note this is the marginal effect of importing metals and machines from FTA countries relative to all products from Non-FTA countries). However, the effect on auto imports is not significantly different from the comparator group.

On similar lines, textile exports to FTA countries increase by 2 per cent relative to comparator group for 10 per cent decrease in tariffs.

### VI. *Disaggregated Effects*

Columns (1) of Table A2.1 in Appendix 2, Technical Appendix, Chapter-8 reports results for the effect of tariffs on trade holding gravity variables constant. As expected, a ten per cent reduction in tariff increases overall trade by 3.1 per cent, irrespective of whether the reduction occurs unilaterally or preferentially. In Column (2) we check the robustness of our earlier result by controlling for numerous confounding factors on the exporting and importing side. The trade elasticity reduces to 2.7 per cent for a 10 per cent tariff reduction but continues to have a strong significant effect. Column (3) isolates the effect of FTA tariff reductions from unilateral tariff reductions. While marginal effect of FTA tariff reduction is negative, on average FTA tariff reduction causes trade to go up by 2.9 per cent.<sup>19</sup>

<sup>18</sup> All product categories other than the four major sectors are hereafter referred to as “other products”

<sup>19</sup> The average effect of non-FTA tariff reduction is 0.3%. The average effect of FTA tariff reduction is calculated as =  $-0.3\% + 0.16\% * (\text{average post tariff FTA (using table 4, column 2)}) = -0.2919\%$ .

Table A2.2, Appendix 2, Technical Appendix, Chapter-8 shows the effect of reductions on imports and exports separately. Columns (1) and (2) show that a 10 per cent decrease in unilateral tariffs increases exports and imports by 0.7 per cent and 1.2 per cent, respectively. (Note that in the case of ASEAN, for example, a 10 per cent reduction in tariffs translates to a reduction from 6.1 per cent to 5.5 per cent on the export side, but a much larger reduction, from 11.3 per cent to 10.2 per cent, in import duties.)

We also find that FTA-based reductions have the same impact as non-FTA ones. That is, a 10 per cent import side reduction in tariffs has the same effect in FTA and non-FTA cases: imports increase by 0.9 per cent. Similarly, a 10 per cent reduction on the export side has the same effect in both cases: an average export increase of 0.5 per cent.

### **CONCLUSION: POLICY IMPLICATIONS**

8.21 Our results are preliminary. More work is needed to enrich our analysis and extend it to services. Without that, it is difficult to come to any definitive conclusions about the overall impact of India's FTAs. With that caveat, the results yield the following implications. India's FTAs have worked exactly as might be expected. They have increased trade with FTA countries more than would have happened otherwise. Increased trade has been more on the import than export side, most likely because India maintains relatively high tariffs and hence had larger tariff reductions than its FTA partners.

8.22 The trade increases have been much

greater with the ASEAN than other FTAs and they have been greater in certain industries, such as metals on the import side. On the export side, FTAs have led to increased dynamism in apparels, especially in ASEAN markets. This is consistent whether one looks at aggregated partner level effects or at a disaggregated partner-product level effects.

8.23 Going forward, the big question for India is whether to continue negotiating FTAs and if so with whom? A related and perhaps even bigger question is how India should position itself relative to the new mega-regional agreements.

8.24 Multilateral trade liberalisation remains, of course, the best way forward. But the WTO process seems to have been overtaken by preferential trade agreements. Against this background, India has a strategic choice to make: to play the same PTA game as everyone else or be excluded from this process. The results of our preliminary analysis suggest that Indian PTAs do increase trade without apparently leading to inefficient trade. In the current context of slowing demand and excess capacity with threats of circumvention of trade rules, progress on FTAs, if pursued, must be combined with strengthening India's ability to respond with WTO-consistent measures such as anti-dumping and conventional duties and safeguard measures.

No matter what India ultimately decides, one thing is clear. Analytical and other preparatory work must begin in earnest to prepare India for a mega-regional world.