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Recent Trends and Future Trajectories in Geo-Economics

Anisree Suresh, Arindam Goswami, & Rakshith Shetty

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This document is a compendium of two working papers presented at the June 2024 Internal Conference organised by the Takshashila Institution on the theme of Geo-Economics. The papers featured in this document cover two key topics – the first maps the flows, delays, and trajectories of the Climate Finance Pledge, and the second assesses the proliferation and effectiveness of FTAs and RTAs in the context of a weakened WTO.

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Executive Note

Satya S. Sahu

This document has been formatted to be read conveniently on screens with landscape aspect ratios. Please print only if absolutely necessary.

The Takshashila Institution organised a conference on 19th June 2024 to understand recent trends and project future trajectories in Geo-Economics. Takshashila's in-house scholars, Anisree Suresh, Arindam Goswami, Rakshith Shetty, Anupam Manur, and Sarthak Pradhan, presented papers covering diverse topics related to Geo-Economics. Bharath Reddy chaired the conference. This document is a compendium of two working papers presented at the conference.

In the first paper, Rakshith Shetty maps the flows, delays, and trajectories of the $100 billion Climate Finance Pledge. His paper finds that developed countries achieved the pledge two years late in 2022, with a significant portion coming from existing development aid rather than being "new and additional" as expected. The lack of a clear definition of climate finance has enabled double-counting and reduced transparency. The upcoming negotiations for the post-2025 climate finance goal provide an opportunity to rectify past issues and set a more ambitious, needs-based target.

In their paper, Anisree Suresh and Arindam Goswami assess the proliferation and effectiveness of free trade agreements (FTAs) and regional trade agreements (RTAs) in the context of a weakened WTO. It argues that RTAs are most effective when participating countries already have substantial pre-existing trade volumes. Developing countries must carefully consider the benefits and challenges of entering into RTAs/FTAs. The inclusion of non-trade issues like labour and environmental standards in FTAs can be detrimental to developing country interests if not balanced appropriately. The future of trade governance likely involves a two-pillar structure: WTO foundational rules plus decentralised mega-regional agreements setting new rules. Streamlining RTAs/FTAs for WTO compatibility is crucial.

We welcome comments to build on and add to the ideas in this document. If you have any feedback, please get in touch with us at research@takshashila.org.in.

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The $100 Billion Climate Finance Pledge: Delays, Finance Flows and the Way Forward

Rakshith Shetty

"Richer nations have reaped the benefits of untrammelled pollution for generations, often at the expense of developing countries. As those countries now try to grow their economies in a clean, green and sustainable way we have a duty to support them in doing so – with our technology, with our expertise and with the money we have promised."

- Boris Johnson's speech at the United Nations

Introduction

Despite such strong rhetoric from world leaders, climate experts uniformly agree that richer nations have failed to reach the $100 billion climate finance target.[1] Organisation for Economic Cooperation and Development (OECD) reports that the developed countries achieved their goal of raising the $100 billion target in climate aid for developing countries in 2022 - two years after the deadline.[2] The Centre for Global Development (CGD) analysis suggests that around $27bn of the $94.2bn annual increase in public climate funds in 2022, compared to figures two decades ago, came from *existing* development aid.

Specifically, the CGD identified at least $6.5bn of climate aid within the record 2022 increase that was diverted from other bilateral development aid programmes. This is an issue because the expectation was that the rich countries should provide climate finance that is “new and additional”.[3] And to make matters worse, few developed countries are cutting back their aid budgets.[4] As we look to the upcoming climate negotiations in Azerbaijan (COP 29), addressing these shortcomings and establishing a more robust and transparent climate finance framework is crucial. The upcoming negotiations for the New Collective Quantified Goal (NCQG)[5] on climate finance, set to replace the $100 billion target from 2025, offer an opportunity to rectify past mistakes and set a more ambitious and needs-based target.[6] This new goal must ensure that climate finance is both adequate and accessible, particularly for the most vulnerable countries, and that it supports a balanced approach between mitigation and adaptation efforts.

Key Takeaways:

The absence of a universally accepted definition of climate finance, despite discussions spanning three decades, has allowed developed countries to categorise various funding types, such as Official Development Assistance (ODA) and high-cost loans, as climate finance. This lack of clarity enables double-counting and reduces transparency in climate finance reporting.

In 2021, a considerable portion of climate finance from developed countries originated from existing aid development programs, indicating a diversion of funds from other development priorities (like health and education).
Much of the funding being reclassified came from sectors such as energy and transport. This could mean that countries are cutting back on support for fossil fuels and targeting clean energy instead.

India emerged as the top recipient of climate finance in 2021, receiving 9.09% of the total climate-related development finance flows. Bangladesh and Indonesia followed as the second and third largest recipients, respectively.

Japan was the leading provider of climate finance in 2021, contributing 20.39% of the total climate-related development finance flows. Germany and France were the second and third largest providers, respectively. Almost 70% of the climate finance in 2021 came from Japan, Germany, France and the European Union Institutions (excluding the European Investment Bank). The most significant bilateral climate finance flow was observed between Japan and India.

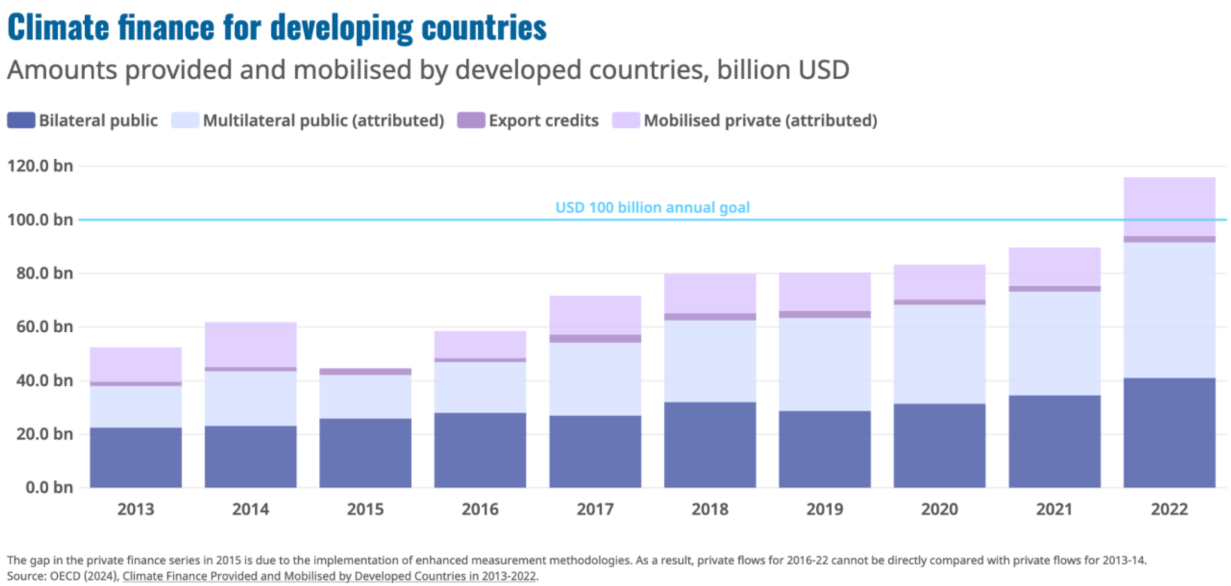
France stood out as the largest contributor to the Green Climate Fund.
Despite the existence of multilateral climate funds such as the Green Climate Fund and Adaptation Fund, only a small proportion of climate finance is channelled through these mechanisms.

In 2021, approximately 36.92% of climate finance was provided in the form of debt instruments, such as loans, marking a decrease from 42% in 2016. This shift suggests a gradual move towards more grant-based and concessional financing for climate action in developing countries.

Mapping the Flow of Climate Finance in 2021

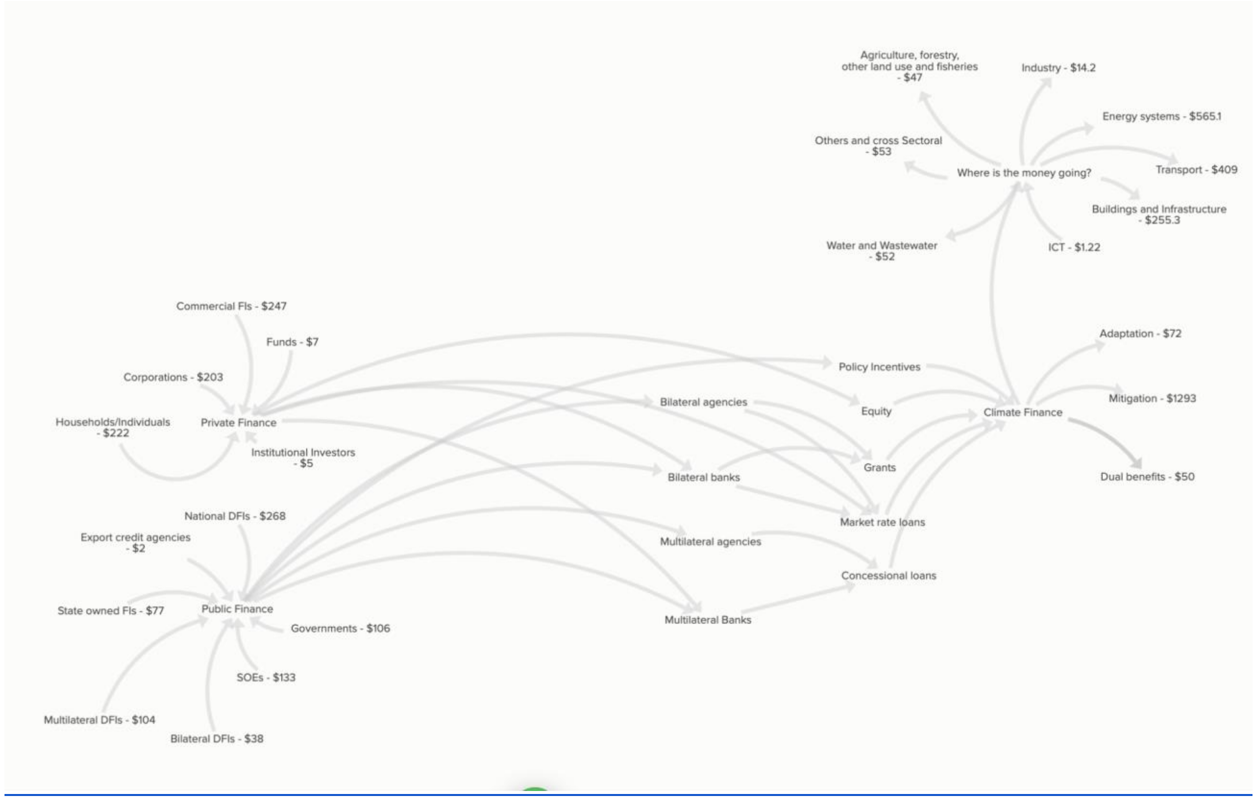
Climate finance refers to local, national, or transnational financing—drawn from public, private, and alternative sources—that seeks to support mitigation and adaptation actions to address climate change.[7] In 2009, at the UN Climate Change Conference in Copenhagen (COP15), developed countries committed to jointly mobilise $100 billion by 2020 and then each year through to 2025.[8] This pledge, which was formalised the following year at COP16 in Cancun, aimed to help vulnerable countries mitigate and adapt to the impacts of climate change.[9]

The UN Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, and the Paris Agreement call for financial assistance from Parties with more financial resources to those that are less endowed and more vulnerable. The money largely comes from the country's foreign aid budgets, which finance climate-related development projects and a smaller proportion is also raised by the private sector. Moreover, countries have determined during the UN climate negotiations that climate finance should be "new and additional", which is widely interpreted as meaning the $100 billion finance should all be supplied on top of existing aid (which has been contested by developed countries). In 2022, almost $7.4bn came from the private sector, where investments remained unchanged yearly.



Source: *OECD (2024), Climate Finance Provided and Mobilised by Developed Countries in 2013-2022*.

Before delving into the reasons behind the developed countries' failure to meet the $100 billion climate finance target, it is essential to understand the intricacies of the global climate finance landscape. The next section will provide an overview of how climate finance flows from donor countries to recipient nations, shedding light on the various instruments, channels, and the significance of the process.

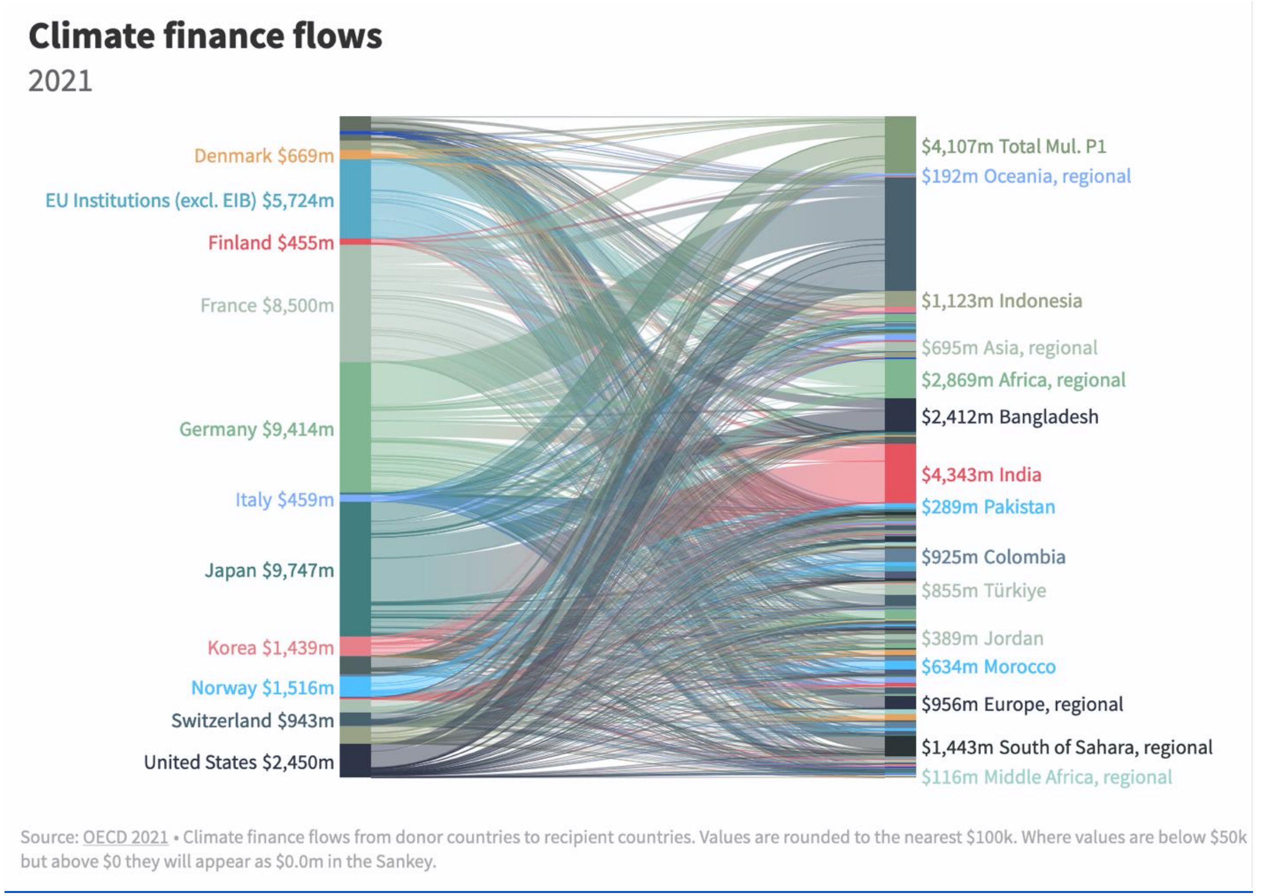


(Source*: CPI. Global Landscape of Climate Finance in 2022. Figures in USD Billions. Chart by author. Click on the above image to view)*

Country-Country Finance

The chart presents an overview of the climate finance landscape in 2021, focusing on the contributions made by OECD countries and the allocation of funds to recipient nations. According to the data, Japan emerged as the leading contributor to climate finance among OECD countries in 2021. Germany and France followed closely behind, securing the second and third positions, respectively, in terms of their climate finance provisions.

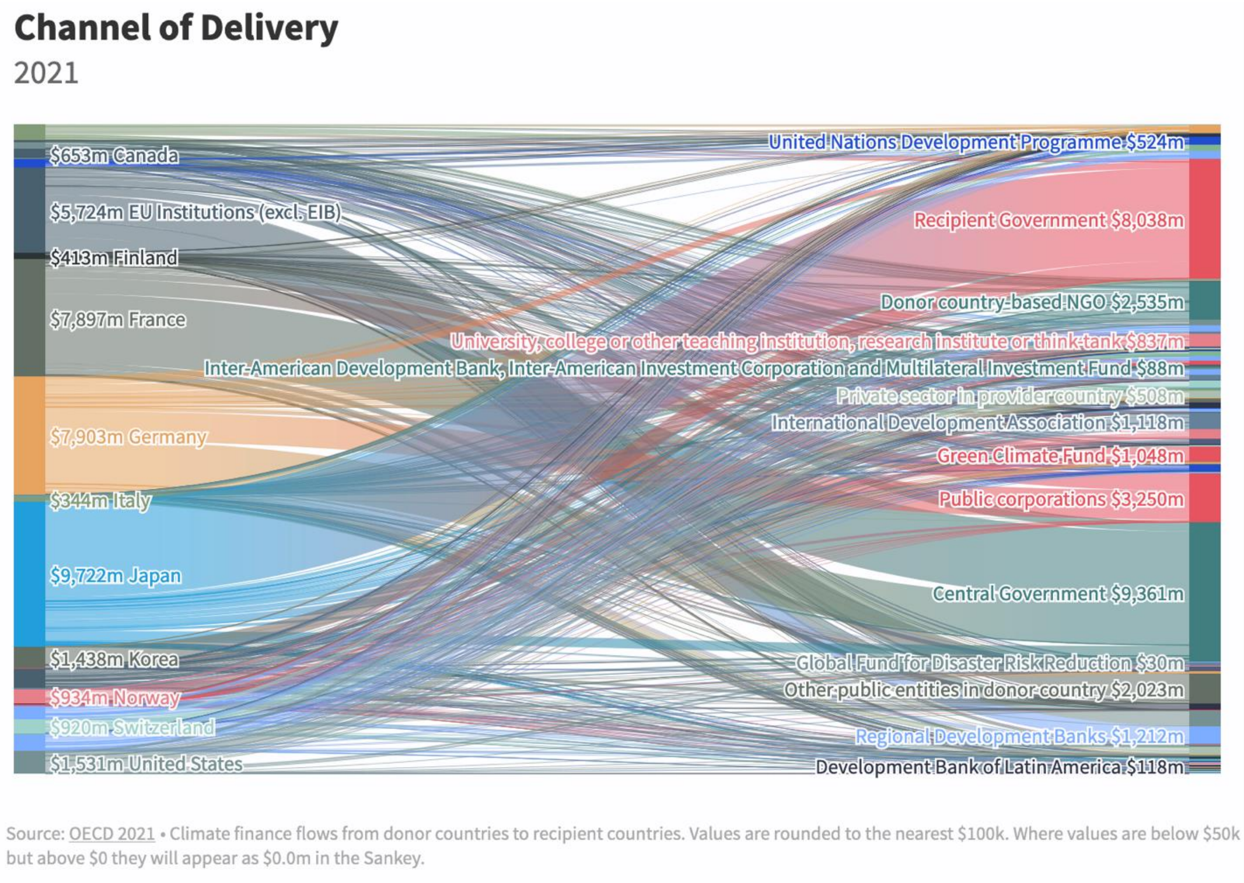
On the receiving end, India stood out as the primary beneficiary of climate finance in 2021, attracting the largest share of funds from OECD countries. Bangladesh and Indonesia also received significant amounts of climate finance, ranking as the second and third largest recipients.



(Figure represents country-country finance flows. Chart by author. Click on the above image to view)

Channel of Delivery

The chart provides a detailed breakdown of the various channels through which climate finance was distributed in 2021. It reveals that the majority of climate finance was provided through direct transfers to recipient governments, highlighting the importance of bilateral agreements and country-to-country support in the climate finance landscape. Notably, France emerges as the largest contributor to the Green Climate Fund.



(Figure depicts various climate finance delivery channels. Chart by author.)

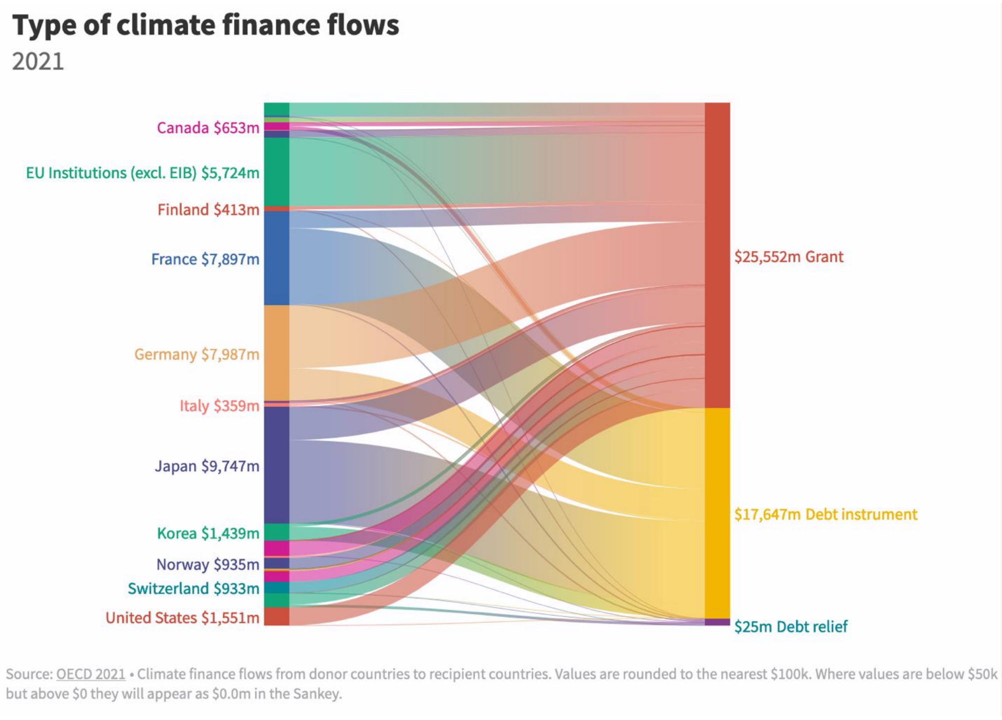
Type of Climate Finance Flows

The diagram provides a breakdown of the types of climate finance flows, categorised according to the definitions set by the Organisation for Economic Co-operation and Development (OECD). These categories include grants, debt instruments (comprising loans and reimbursable grants), equity, and debt relief.

The chart reveals significant variations in the composition of climate finance provided by different countries. For instance, Japan and France stand out for delivering the bulk of their climate finance in the form of debt instruments. This approach involves providing loans and reimbursable grants to recipient countries, which can help finance climate projects but also create a future obligation for repayment.

On the other hand, Germany distinguishes itself by primarily offering climate finance in the form of grants. Grants represent a more concessional form of financing, as they do not require repayment and can be particularly beneficial for supporting climate action in countries with limited financial resources.

In 2021, the overall composition of climate finance saw a notable shift towards more grant-based and concessional financing. Approximately 36.92% of the total climate finance was provided through debt instruments, marking a decrease from 42% in 2016. This change suggests a growing recognition among donor countries of the importance of providing more favourable financing terms to support climate action in developing nations.

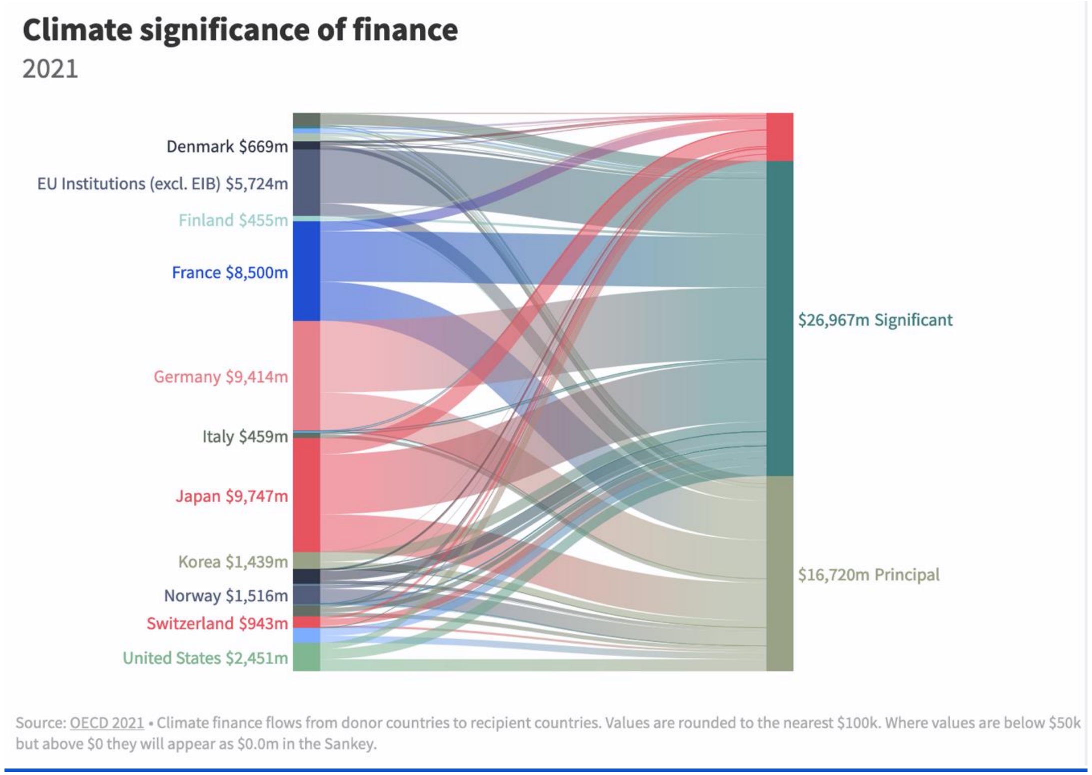


(Figure depicts the type of projects the finance is flowing into. Chart by author. Click on the above image to view)

Climate Significance of Finance

The last diagram shows the breakdown of projects labelled[10] in the OECD data as having either a ‘principal’ or ‘significant’ climate component. The majority of projects are classified as having a ‘significant’ climate-related objective, meaning that while climate change is an important consideration, it is not the primary driving force behind these projects.

In contrast, a smaller proportion of projects are categorised as having a ‘principal’ objective, indicating that they are directly focused on either mitigating climate change or adapting to its impacts. Oxfam's climate finance report[11] highlights a significant issue in the way developed countries report their climate finance contributions. When a development project has multiple objectives, including climate action, the amount of funding counted as climate finance is determined solely by the developed countries themselves. This has “led to the use of disparate and in many instances questionable methods”, Oxfam adds.



(Break down of the projects labelled as significant or principal categories. Chart by author.)

Meeting the $100 Billion target by 'relabelling existing aid'

Despite ongoing discussions spanning three decades, there is still no clear consensus on what constitutes climate finance. This ambiguity has enabled developed countries to categorise various funding types, such as Official Development Assistance (ODA) and high-cost loans, as climate finance. Consequently, this lack of clarity has led to issues of double-counting[12] and reduced transparency in climate finance reporting.

A recent analysis by the Center for Global Development (CGD) reveals that a significant portion of the reported public climate finance in 2022 originated from existing development aid. It concluded that when considering public climate finance, the goal was "partly achieved by adding climate objectives to existing development finance flows". The CGD found that around $27 billion of the $94.2 billion in public climate finance came from pre-existing aid programs.[13] Specifically, at least $6.5 billion of climate aid within the record 2022 increase was diverted from other bilateral development aid initiatives.[14]

Climate finance experts estimate that over a third of the funds provided by developed countries in 2022 were sourced from existing aid budgets.[15] For instance, the UK counted an additional £1.7 billion ($2.15 billion) towards its £11.6-billion climate finance target without giving any more money to vulnerable countries, mainly by re-badging other forms of aid as it sought to counter fiscal pressures related to the COVID-19 pandemic.[16]

While the diversion of existing aid to meet climate finance targets raises concerns, it is important to consider the nuances of these reallocations. The nature of the diversion and its ultimate impact depends on the sectors from which the funds are taken and the initiatives they support.

A report by the Overseas Development Institute (ODI) suggests that much of the reclassified funding came from sectors such as energy and transport. This could indicate that countries are shifting their priorities, cutting back on support for fossil fuels and instead targeting clean energy initiatives. The recent World Energy Investment report by the International Energy Agency (IEA) supports this notion, stating that global investments in clean energy now double those in fossil fuels.[17]

As the world looks beyond the $100 billion target and towards a more ambitious and effective climate finance framework, attention is now turning to the New Collective Quantified Goal (NCQG).

The New Collective Quantified Goal (NCQG)

The New Collective Quantified Goal (NCQG) on climate finance is set to replace the existing goal of $100 billion per year. The NCQG aims to channel greater funds towards urgently needed climate action in developing countries, supporting the implementation of low-carbon, climate-resilient solutions in various sectors. By increasing financial support, it should enable developing countries to step up their climate ambitions in the next round of national climate plans (NDCs) due in 2025. However, deliberations on the new goal have been slow, and negotiators have yet to reach a consensus on foundational questions.

There are seven key elements[18] of the NCQG that negotiators will grapple with leading up to and at COP29 in Azerbaijan. These include:

1) Setting an ambitious target that meets developing countries' climate finance needs, which research indicates could be trillions of dollars annually.
2) Determining which countries should contribute to the new finance goal, as developed countries argue that additional nations are now capable of contributing.
3) Choosing an appropriate time frame, with proposed periods varying from five to 20 years.
4) Addressing all three pillars of climate action: adaptation, mitigation, and loss and damage.
5) Defining the scope of the NCQG and its relationship to Article 2.1(c) of the Paris Agreement.
6) Designing the NCQG to support high-quality climate finance, considering factors such as concessionality, accessibility, predictability, and effectiveness.

7) Implementing transparent processes to track progress, potentially leveraging existing instruments within the Paris Agreement, such as the Enhanced Transparency Framework (ETF).

The negotiations surrounding the NCQG on climate finance are complex and politically challenging, with each element under technical debate presenting its own set of difficulties. The NCQG negotiations have brought to light a wide range of intricate topics, not all of which can be effectively addressed within the NCQG context alone. Some decisions relevant to the new goal will need to be made outside of the United Nations Framework Convention on Climate Change (UNFCCC) negotiations, such as within the G20 and through the governance mechanisms of climate funds, development banks, and other development finance institutions.[19] In these spaces, there is a greater emphasis on the need to integrate climate, development, and nature finance and implementation.[20] However, the negotiated NCQG text can provide clear guidance and direction for these external discussions.

This is a crucial opportunity for countries to acknowledge the challenges, learn from the experiences of the $100 billion goal, and ensure that increased climate investment goes hand-in-hand with sustainable development and poverty eradication. To achieve this, three critical actions must be taken. First, many countries, particularly the United States, which holds the greatest responsibility, must provide more climate finance to contribute their fair share of the effort. Second, countries need to improve the quality of the climate finance they provide, addressing developing countries' requests for more finance in the form of grants and for adaptation, which are also emphasised in the Paris Agreement. Finally, data reporting needs to be significantly improved, as rectifying reporting ambiguities is crucial to increase accountability, transparency, and trust among all parties involved in the climate finance landscape.

Assessing the Proliferation and Effectiveness of FTAs and RTA in the Context of a Weakened WTO

Anisree Suresh and Arindam Goswami

Introduction

In today's interconnected world, the ethos of free trade stands as a cornerstone for economic progress and global prosperity. Embracing the principles of free trade agreements (FTAs) is not just a strategy but a necessity for fostering economic growth, enhancing market access, and facilitating the seamless exchange of goods and services across borders. These agreements, rooted in the advocacy of unencumbered trade, pave the way for a more integrated and efficient global economy, benefiting developed and developing nations.

Regional Trade Arrangements (RTAs), while potent tools for economic integration, often show the greatest efficacy when participating countries already share substantial trade volumes. This synergy magnifies the benefits of reduced trade barriers, leading to more robust and dynamic economic partnerships. However, the success of RTAs hinges not merely on geographic proximity or shared borders but significantly on the pre-existing trade relationships and the volume of commerce between the member nations.

For developing countries, deciding to enter into FTAs and RTAs requires a nuanced analysis beyond immediate economic gains. Factors such as the economies' size, trade volumes, and potential for economic complementarities must be meticulously considered. These nations must weigh the prospects of increased market access and foreign direct investment against competition and regulatory harmonisation challenges. Ultimately, a well-negotiated FTA that genuinely promotes free trade can serve as a catalyst for economic development, innovation, and enhanced global standing.

In recent years, an increasing trend has emerged among developed countries to include non-traditional trade issues such as labour rights, environmental standards, and intellectual property protections in FTAs. While these issues are important, their inclusion can be detrimental to the interests of developing countries. Such provisions often impose additional regulatory burdens and compliance costs, potentially stifling growth and undermining the competitive advantages of developing economies. This trend highlights the need for a balanced approach to FTA negotiations, ensuring that trade liberalisation remains the central focus while addressing non-trade concerns in a manner that does not disadvantage emerging economies.

Promoting international trade through a more inclusive and non-discriminatory approach is crucial for the WTO's effectiveness. However, the preferential trading system poses problems for the multilateral trading system by potentially leading to trade diversion over trade creation, thereby reducing economic growth and creating disincentives for broader multilateral liberalisation.

Regional trade blocs play a significant role in liberalising trade and addressing niche challenges. The future governance of international trade is likely to involve a two-pillar structure, with the WTO maintaining its foundational rules and new rules for global value chains being set by decentralised and sometimes inconsistent megaregional agreements. Due to the specific and binding nature of these agreements, regional commitments may be more focused and credible than those at the WTO level for many developing countries.

As we navigate a new age of global trade, the interplay between regionalism and multilateralism will shape the future of international economic relations. Regionalism, through RTAs and FTAs, is here to stay. Therefore, it is imperative to devise ways to streamline these agreements to lead to greater economic integration and harmonisation of regulations and trade across the world. This approach will help ensure that RTAs and FTAs become compatible with multilateral trade rules governed by the WTO. By championing free trade and carefully crafting FTAs that reflect both the opportunities and constraints of their unique economic landscapes, countries can unlock new avenues for growth and cooperation, ensuring a more prosperous and interconnected world for all.

This paper tries to address the following research questions;

1) To identify the challenges to the WTO multilateral trade system in addressing the emerging global concerns.
2) To identify a methodology/framework to assess the impact of FTAs in addressing the new-age obstacles to international trade and,
3) To analyse the trends in the proliferation of FTAs and RTAs in emerging global economies from Asia and Africa (Case Studies of India and South Africa)

WTO's Role in Liberalising International Trade

A multilateral trading system overseen by the General Agreement on Trade and Tariffs (GATT)/World Trade Organisation (WTO) was established in 1947 based on the vision that fostering interdependence among economies would play a crucial role in achieving peace and prosperity at a time world was going through decades of deglobalisation, marked by two world wars, and the Great Depression. GATT acted as a placeholder and template regulating international trade among signatory parties until the formation of the World Trade Organisation (WTO) in 1994 during the Uruguay Rounds that lasted from 1986 to 1994 to replace GATT. When the Uruguay round was completed on 15 April 1994, wherein 111 out of the 125 participating states signed the final document, 104 states accepted it, and it came into force on 1st January 1995 for eighty-one members, which reflected more than 90 per cent of international trade, creating WTO.

WTO presides over a rule-based trading system based on almost universally accepted norms, where tariffs are reduced to below 5% on most trade and zero for a very large share of imports. For instance, China's accession to the WTO in 2001 and Beijing dropped the simple average tariff from about 40 per cent in 1985 to under 10 per cent in 2020. Since its establishment, WTO has succeeded in concluding several trade agreements that liberalised trade between states. The growing openness of large developing markets has given room for new export opportunities for countries, and globalisation has been attributed to have emerged and continued to expand courtesy of the WTO regime with its freer trade regime in goods, services, technology, labour and capital transfer among various countries.

The WTO was established with the objective of establishing a global platform for states to address various challenges that hampered the growth of international trade and to devise means to guarantee generally accepted solutions towards a smooth transition to greater free trade regimes. The WTO has also provided means for settling trade and investment disputes amongst state parties through its dispute settlement system, which is reputed to be the most highly developed and legalised in international law. Its paradigmatic hard law regime at the global level established a stout dispute settlement system that imposes legally binding obligations on members. Unlike the IMF and World Bank, the second model, including the WTO and UNFCCC, is more democratic, with each country having an equal voice and weight.

Weakening of the WTO

In the post-World War II era, multilateralism was defined by three key characteristics: indivisibility (where one nation's actions impact the entire system), adherence to generalised norms of conduct, and reciprocity. The WTO exemplifies this by fostering a network of trade links independent of individual agreements, following the principle of non-discrimination (Most Favoured Nation - MFN), and ensuring mutual benefits for all member countries. However, recent years have seen a crisis in multilateralism, characterised by declining international cooperation, rising geopolitical competition, and a fragmented international order.

A major issue has been the lack of consensus between developed and developing economies on special preferential treatment, leading to stalemates in the WTO Doha Round of trade negotiations. This failure is a significant blow to the WTO, highlighting the difficulties in decision-making due to differing North-South perspectives and the need for consensus. For instance, the Uruguay Round negotiations (1986-1994) took years to conclude, while the Doha Round, which began in 2001, remains stalled due to disagreements on free trade and agricultural produce movement.

The single undertaking principle of the Doha Round requires agreement on all issues before any can be adopted, making it difficult to reach a comprehensive deal. Progress in one area is often held back by disagreements in others. The Bali Ministerial Conference of 2013 was a rare success, achieving agreements on trade facilitation, food security, and the abolition of agricultural subsidies by developed countries.

Analysis of WTO committee work reveals a surge in trade concerns, especially in the Committee on Technical Barriers to Trade (TBT) and the Committee on Market Access. The number of unresolved issues has escalated to the political level in the Council for Trade in Goods, where concerns have increased ninefold from 2015 to 2022. The US blocking appointments to the WTO Appellate Body, responsible for reviewing trade appeals, has led to a paralysis in dispute settlement, further weakening the international trade system.

The WTO's failures in dispute resolution and services trade, such as the inability to conclude the Doha Agenda of 2010, have diminished its role in

international trade coordination. Regional bodies like the Regional Comprehensive Economic Partnership (RCEP) are increasingly taking over this role. The 2008 financial crisis prompted a discussion about the future of the global economic system and the need for more inclusive governance structures, like the G20, which includes emerging market economies.
Recent crises, such as the COVID-19 pandemic and the war in Ukraine, have increased scepticism towards globalisation, with many viewing international trade as risky. Since the COVID-19 outbreak, 443 trade-related measures have been introduced by WTO members, 44% of which were restrictive, affecting trade worth US$134.6 billion. The war in Ukraine and the resulting food security crisis have led to 96 export-restrictive measures on food, feed, and fertilisers, covering US$85 billion in trade.

Recent trade concerns include unilateral environmental measures, such as Indonesia's export restrictions on raw materials, China's restrictions on gallium and germanium, the EU's Carbon Border Adjustment Mechanism (CBAM), and the US Inflation Reduction Act (IRA). There are growing calls for near-shore or friend-shore supply chains or to create self-sufficient regional trade blocs. Many countries adopt state-directed industrial strategies, subsidies, and trade restrictions to build national self-sufficiency and reduce geopolitical risks.

The rise of new industrial strategies has led to increased use of subsidies, which give local businesses an unfair advantage over foreign competitors, disrupting international trade. Fewer foreign products are in the market, and potential economic imbalances result. Unilateral trade policies could lead to a downward spiral of counter-responses, fragmenting the world into regional trade blocs. In recent years, mini-lateral agreements have become increasingly popular as a solution to multilateralism's inefficiencies, providing a viable alternative for cooperation among countries with shared interests.

The Rise of Regionalism and Regional Trade Agreements (RTAs)

Regionalism and RTAs have been on the rise in recent years, largely due to the factors listed below.

Slow Progress in WTO Negotiations:

The lack of progress in WTO multilateral trade negotiations, such as the Doha Development Round, has led nations to seek alternative avenues for trade liberalisation through regional agreements.

Pursuit of Deeper Integration:

Many countries seek deeper economic integration beyond what the WTO currently offers. RTAs often cover areas like investment, intellectual property rights, and services, which are not fully covered by WTO agreements.

Strategic Economic Interests:

Countries form RTAs to gain preferential access to regional markets, promote their economic interests, and strengthen political and economic ties with neighbouring countries or key trading partners.

Proliferation Effect:

As more countries join RTAs, others feel compelled to follow suit to avoid being left out of preferential trade arrangements and maintain their competitiveness in regional markets.

Global Trend of RTAs:

The proliferation of RTAs is evident from the sharp increase in the cumulative notifications of RTAs and the number of physical RTAs in force since the mid-1990s, as shown in Figure 1. The y-axis on the left shows the number of different types (good notifications, services notifications and accessions to a Preferential Trade Agreement (PTA)) of PTAs per year. The y-axis on the right shows the cumulative notifications and the cumulative number of PTAs in force.

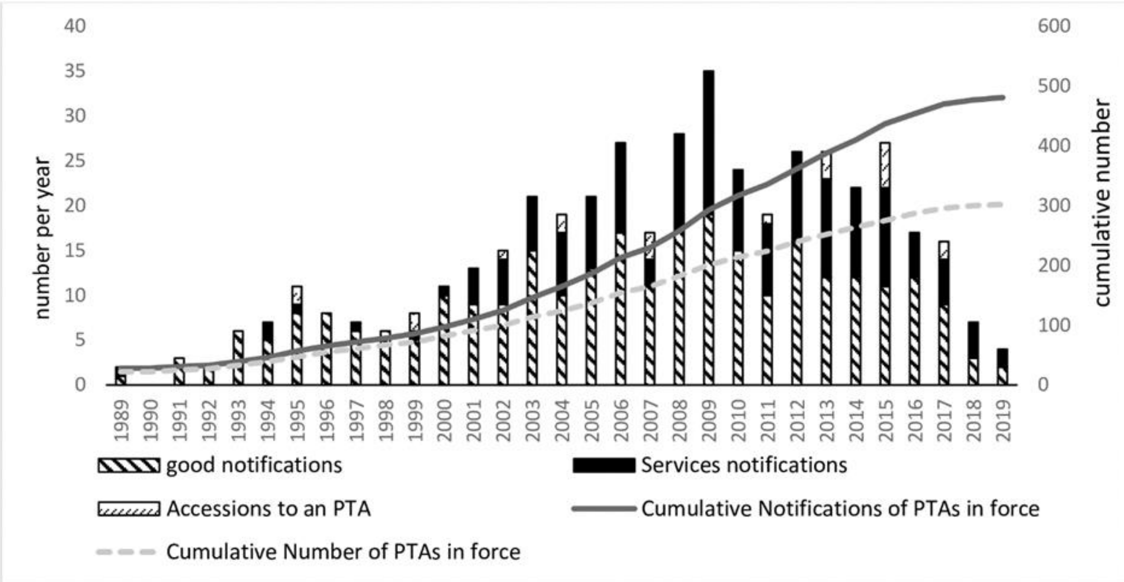


Figure 1: *Proliferation of RTAs. Source: WTO website RTA database*.

Economic and Political Perspectives on RTAs

Economic Perspective

Countries are permitted to enter into PTAs under specific conditions covering trade in goods (Article XXIV of the General Agreement on Tariffs and Trade 1994), regional or global arrangements for trade in goods between developing country members (Enabling Clause), and agreements covering trade in services (Article V of the General Agreement on Trade in Services). PTAs are an exception to WTO's non-discrimination principle because only their signatories enjoy more favourable market access conditions.

The product-based coverage index of PTAs significantly boosts trade only when the member countries are low—and middle-income nations. Additionally, extensive product liberalisation facilitated by PTAs can enhance global production networks by encouraging the trade of intermediate goods. A Regional Trade Arrangement encourages trade only when the partner countries are already sharing a great trade volume. For India, its engagements with the Association of Southeast Asian Nations and East Asia per se are unlikely to boost trade.

Adams et al. (2003) found that the EU, the North American Free Trade Agreement (NAFTA), and the MERCOSUR have been unsuccessful in creating significant intra-trade. Pant and Sadhukhan (2000) argue that demand and supply-side factors are more crucial for India's exports than the pure trade creation or diversion effects of a RTA. Pant (2010) compared the share of intra-RTA trade in world trade for several years before and after the implementation of RTAs and revealed that there was no significant increase in intra-RTA trade, except in the case of MERCOSUR.

It can also be argued that the main incentive for an RTA is tariff reduction and freer trade. However, by 1991, most countries had already reduced their tariffs to relatively low levels as part of the implementation of GATT. Therefore, the Vinerian benefits of an RTA through trade creation or diversion effects seem limited.

Rational perspective on fear of trade imbalances

Between 2000 and 2011, India entered into 14 PTAs with various countries and regional groups, including bilateral agreements with Japan, South Korea, Malaysia, and Singapore, as well as plurilateral agreements with ASEAN and Mercosur. The impact of these agreements on trade has been limited. India's imports from its bilateral partners decreased from 13.3% of its total imports in 2007 to 11.8% in 2017, while exports remained nearly unchanged at 14% over the same period. Imports under the ASEAN agreement slightly increased from 9.6% to 10.2%, and exports grew from 9.5% to 12%.

Critics of these agreements often point to increased bilateral trade deficits, but this overlooks the growth in India's economy. When adjusted for economic size, India's trade deficit position with its FTA partners actually improved between 2007 and 2017. Additionally, sectors experiencing intensified import competition due to these agreements accounted for only 6-7% of total imports, indicating limited strain on the economy.

Liberalisation under these agreements is still ongoing, and data does not support the notion that they have significantly stressed India's economy. The RCEP, covering over three billion people and 20% of global GDP, could have provided substantial benefits for India's exports by eliminating trade barriers, attracting foreign direct investment (FDI) and facilitating integration into global value chains. It was seen as more manageable than potential agreements with the US or EU, like the Trans-Pacific Partnership (TPP), due to broader trade liberalisation issues. It required concessions on contentious non-trade issues such as environmental and labour regulations, intellectual property (IP) protection, and the operations of state-owned enterprises.

However, India's large trade deficit with China posed a risk of increased imports and a wider deficit under RCEP. India could have negotiated better market access in China for its strengths, like pharmaceuticals and IT services, and sought gradual liberalisation for sensitive sectors to mitigate these risks while benefiting from greater market integration with Asia.

Political Perspective

Contrary to the economic perspective on RTAs, the political approach argues that as the WTO process becomes less effective, RTAs offer new forms of plurilateralism, allowing countries to align with political blocs for future multilateral negotiations. Some RTAs serve as strategic alliances that implicitly include security arrangements, with countries signing them for political reasons. In some cases, RTAs are used to solidify domestic policy reforms like reducing import tariffs, opening up the economy to global players, setting standards and regulations, policy discipline, legal and institutional frameworks, etc.

The political approach suggests that countries may have incentives to sign agreements that result in trade-diverting effects because these do not harm domestic industries and are thus more politically acceptable. In contrast, agreements that lead to trade-creating effects may face significant political opposition as they could undermine domestic industries.

Methodology: Frameworks to Analyse FTAs

This study uses a framework to analyse the effectiveness of Free Trade Agreements (FTAs) in developing and emerging economies, focusing on the 21st century's challenges within a weakened WTO context. The framework examines structural reforms and policy adjustments, including governance, competition policy, intellectual property protection, and addressing climate and energy concerns.

An ideal FTA should maximise trade creation, where efficient partner-country production displaces less efficient domestic production, and serve as a tool for industry reform rather than protection. The analysis covers macroeconomic benefits and impacts on environmental sustainability, energy conservation, and digital trade. India and South Africa are chosen as case studies due to their diverse economies, developing status, regional influence, and existing FTAs. These case studies provide insights into how FTAs can be designed to maximise benefits and address the unique challenges developing economies face in the 21st century.

Frameworks to analyse RTAs

When analysing the utility and effectiveness of RTAs, a comprehensive framework should consider various economic, political, and strategic factors. It could have the following perspectives, and along each of these perspectives, it should be considered a beneficial RTA if it moves the needle in the direction of a freer economic engagement with the world in investments, goods and services.

Even if it causes some setbacks to domestic players initially due to increased competition, that should not be a major concern because, eventually, it causes everybody to become more competitive if they have to survive in the domestic and international markets. The increased competition also helps in increasing the exports of the nation because it raises the quality and productivity of domestic players.

There are a few things to be guarded against while considering RTAs. This includes dumping of goods at very cheap prices, but there can be explicit provisions against dumping. RTAs need not be sacrificed at this altar.

Another important consideration is not to allow non-trade issues to creep into the agreements to the detriment of developing country interests. As far as possible, it is better to have Special and Differential Treatment (S&DT) provisions to ensure things like phased reduction of tariffs so as to give enough time for domestic players to adapt to the changes. Rushed RTAs can give fillip to vested interests and domestic lobbies to change the narrative to one of opposition to RTAs, which is counterproductive.

Also, RTAs that lead to increased harmonisation of standards, rules and regulations are to be welcomed because they reduce the barriers to trade and productivity.

In general, RTAs that promote free market principles, with adequate safeguards against rushed implementation, are to be favoured. Protectionism would only make the outlook inward-looking, and not encourage domestic players to step up to the challenge.
Some factors to consider while evaluating RTAs:

1. Economic factors:
    a. Trade creation and trade diversion effects
        i. NAFTA led to significant trade creation between the US, Canada, and Mexico but also caused some trade diversion from more efficient producers outside the region.
    b. Market access and trade facilitation
        i. The EU Single Market has eliminated most barriers to trade, allowing free movement of goods, services, capital, and labour among member states.
        ii. India's trade with ASEAN countries under the ASEAN-India Free Trade Area (AIFTA) has significantly boosted its export of pharmaceuticals.

c. Services Trade and Movement of Professionals:
   i. Assess the potential for enhanced market access and national treatment for Indian service providers, particularly in sectors like IT, healthcare, and education. The India-Korea CEPA has improved access for Indian IT professionals in South Korea.
   ii. Evaluate the provisions for the temporary movement of skilled professionals and service suppliers. The India-Japan CEPA includes provisions for the movement of healthcare professionals, benefiting Indian nurses and caregivers.
d. Impact on domestic industries and competition
   i. The China-ASEAN FTA led to concerns in some ASEAN countries about increased competition from Chinese imports in sectors like textiles and electronics.
   ii. The India-Sri Lanka Free Trade Agreement saw a substantial increase in the import of textiles from Sri Lanka, impacting local manufacturers.
e. Foreign direct investment (FDI) and investment flows
   i. The ASEAN Comprehensive Investment Agreement aims to promote FDI flows within the region by providing investor protection and dispute settlement mechanisms.

        ii. The Comprehensive Economic Partnership Agreement (CEPA) with Japan has led to increased Japanese investments in India's automotive and electronics sectors.
    f. Economic integration and harmonisation of regulations
        i. Example: The Eurasian Economic Union has harmonised technical regulations, sanitary and phytosanitary measures, and customs procedures among its member states.
2. Special and Differential Treatment (S&DT) Provisions:
    a. Evaluate the extent of S&DT provisions, such as longer implementation periods, less stringent commitments, and safeguard measures, to protect domestic industries and policy space. For instance, India's agreements often include provisions allowing for phased tariff reductions to protect sensitive industries.
    b. Assess the effectiveness of technical assistance and capacity-building measures offered by partner countries. The South Asian Free Trade Area (SAFTA) agreement includes technical assistance measures that have helped India enhance its trade facilitation capabilities.
3. Strategic and geopolitical factors:
    a. Strengthening regional cooperation and influence

   i. The African Continental Free Trade Area (AfCFTA) is intended to boost intra-African trade and enhance the region's economic and political influence globally.
   ii. India's engagement with ASEAN and the BIMSTEC group enhances its strategic footprint in the Indo-Pacific region.

b. Enhancing Bargaining Power in Global Trade Negotiations
   i. Example: The EU's collective bargaining power as a bloc has been instrumental in shaping global trade rules and negotiations at the WTO.

c. Securing preferential access to key markets
   i. Example: The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) provides its members with preferential access to key markets in the Asia-Pacific region.

d. Diversifying trade partners and reducing dependency
   i. Example: The Regional Comprehensive Economic Partnership (RCEP) aims to diversify trade relationships and reduce reliance on traditional partners for many Asian economies.
   ii. The India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA) aims

to enhance India's role in the African and Indian Ocean economies.

4. Institutional and regulatory aspects:
    a. Harmonisation of rules, standards, and regulations
        i. Example: The EU has harmonised product standards, technical regulations, and conformity assessment procedures through its Single Market directives.
    b. Dispute settlement mechanisms
        i. Example: The North American Free Trade Agreement (NAFTA) had a comprehensive dispute settlement mechanism, including provisions for investor-state dispute settlement (ISDS).
    c. Facilitation of cross-border movement of goods, services, and people
        i. Example: The ASEAN Economic Community (AEC) aims to facilitate the free flow of goods, services, investment, capital, and skilled labour within the region.
    d. Intellectual property rights (IPR) protection and enforcement
        i. The EU-Vietnam FTA includes provisions on IPR protection, including geographical indications (GIs) for certain European agricultural products.

ii. The India-EU Bilateral Trade and Investment Agreement negotiations emphasise the protection of geographical indications, like Darjeeling tea and Basmati rice.

iii. India's agreement with ASEAN includes clauses to protect traditional knowledge and biodiversity.

5. Development and inclusiveness:
   a. Impact on economic development and poverty reduction
      i. The CARICOM Single Market and Economy (CSME) aims to foster economic development and improve living standards in the Caribbean region.
      ii. The India-Afghanistan PTA includes measures aimed at enhancing Afghanistan's economic development and stability.
   b. Provisions for special and differential treatment for developing countries
      i. Example: The ASEAN-India FTA includes special and differential treatment provisions, such as longer implementation periods for tariff reductions for certain products from India.
   c. Technical assistance and capacity-building measures
      i. Example: The EU's Economic Partnership Agreements (EPAs) with African, Caribbean, and Pacific (ACP)

countries include measures for technical assistance and capacity building.

   d. Inclusive growth and distribution of benefits
      i. The Pacific Alliance (Chile, Colombia, Mexico, and Peru) has initiatives to promote inclusive growth and ensure the benefits of integration reach micro, small, and medium-sized enterprises (MSMEs).
      ii. India's agreements often include special provisions for MSMEs, recognising their role in employment and inclusive growth.

6. Non-trade issues:
   a. Environmental standards and sustainable development
      i. The EU-Canada Comprehensive Economic and Trade Agreement (CETA) includes provisions on environmental protection and sustainable development.
      ii. India's exports of agricultural products to the EU face significant non-tariff barriers, necessitating robust provisions in any RTA.
   b. Labour rights and worker protection
      i. The United States-Mexico-Canada Agreement (USMCA) has stronger labour provisions and enforcement mechanisms compared to its predecessor, NAFTA.
   c. Corporate governance and transparency

            i. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) includes chapters on regulatory coherence, anti-corruption, and transparency in government procurement.
    d. Evaluate the measures for simplifying customs procedures, streamlining documentation, and enhancing trade facilitation.
        i. The India-Singapore Comprehensive Economic Cooperation Agreement (CECA) includes several trade facilitation measures that have reduced transaction costs.
    e. Cultural and social implications
        i. Example: The EU's audiovisual and cultural industries are excluded from many of its trade agreements to protect cultural diversity and national identities.

7. Implementation and utilisation:
    a. The extent of tariff reductions and elimination of non-tariff barriers
        i. Example: The ASEAN Free Trade Area (AFTA) has progressively reduced and eliminated tariffs on most goods traded among member states, although some non-tariff barriers remain.
    b. Utilisation rates and awareness among businesses

        i. Example: The utilisation rate of preferential tariffs under the EU-South Korea FTA has been relatively low due to issues like lack of awareness and complex rules of origin.
    c. Ease of compliance and administrative costs
        i. Example: The ASEAN Single Window aims to streamline customs clearance procedures and reduce administrative costs for businesses trading within the region.
    d. Monitoring and enforcement mechanisms
        i. Example: The Canada-United States-Mexico Agreement (CUSMA/USMCA) has stronger monitoring and enforcement mechanisms for labour and environmental provisions compared to NAFTA.
8. Coherence and Compatibility:
    a. Compatibility with multilateral trade rules (WTO)
        i. Example: The EU's trade agreements are designed to be compatible with WTO rules, and the EU has been a strong proponent of the multilateral trading system.
    b. Relationship with other existing RTAs
        i. Example: The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership

(RCEP) have provisions for potential convergence or expansion in the future.

c. Potential for consolidation or expansion of RTAs
    i. Example: The African Continental Free Trade Area (AfCFTA) aims to consolidate and expand existing regional trade agreements in Africa into a single continental market.

By examining these various dimensions, policymakers and stakeholders can comprehensively assess the utility of RTAs in terms of their economic benefits, strategic objectives, institutional effectiveness, development impact, and overall coherence with the broader trade landscape. It is important to note that the utility of an RTA may vary for different countries or stakeholders based on their specific circumstances, priorities, and negotiating objectives.

India's Regional Trade Agreements (RTAs)

India has signed 13 RTAs/Free Trade Agreements (FTAs) with various countries/regions, including Japan, South Korea, ASEAN countries, SAARC countries, Mauritius, United Arab Emirates, and Australia. India's merchandise exports to these countries/regions have generally registered growth in the last ten years, as shown in the following table.

The following table lists country/region-wise merchandise export details:

India’s exports - RTA Partner Countries/Region wise (Values in US$ billion)			
India’s RTA partner Countries/region	**Names of RTAs**	**Export in 2011**	**Export in 2021**
ASEAN	India-ASEAN FTA India-Singapore CECA India-Malaysia CECA India-Thailand FTA - Early Harvest Scheme (EHS)	34.5	40.6
Japan	India-Japan CEPA	5.6	6.1
South Korea	India-South Korea CEPA	4.6	7.0

SAFTA	Agreement on SAFTA India-Sri Lanka FTA India-Nepal Treaty of Trade India-Bhutan Agreement on Trade, Commerce and Transit	13.0	31.6
Mauritius	India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)	It is too early to calculate quantifiable benefits for this RTA, as it was implemented only w.e.f. 10.04.2021.	
United Arab Emirates	India-UAE CEPA	It is too early to calculate quantifiable benefits for this RTA, as it was implemented only w.e.f. 01.05.2022.	

Australia	India-Australia Economic Cooperation and Trade Agreement (Ind-Aus ECTA)	This RTA has been signed on 02.04.2022, but not yet implemented.
Source: Directorate General of Commercial Intelligence and Statistics (DGCI&S)		

Let's look at some of these in some more detail:

1. South Asian Free Trade Area (SAFTA): This agreement aims to promote economic cooperation among the member countries of the South Asian Association for Regional Cooperation (SAARC).
    a. Since the implementation of SAFTA, intra-regional trade among SAARC countries has seen a gradual increase. India's trade with SAFTA countries grew from $6.76 billion in 2006 to approximately $31 billion in recent years.[21]
    b. India's exports to SAFTA countries primarily include petroleum products, textiles, pharmaceuticals, and machinery. However, India faces trade imbalances with some member countries, particularly Bangladesh, in textiles and ready-made garments.

2. ASEAN-India Free Trade Area (AIFTA): This RTA covers trade in goods, services, and investment between India and the Association of Southeast Asian Nations (ASEAN) countries.
    a. Post-implementation of AIFTA, India's trade with ASEAN countries surged significantly. From $42 billion in 2010, it rose to over $131 billion by 2019.[22]
3. India-MERCOSUR Preferential Trade Agreement: This agreement provides preferential tariff concessions on a limited number of goods between India and the MERCOSUR trading bloc (Argentina, Brazil, Paraguay, and Uruguay).
    a. Bilateral trade between India and MERCOSUR countries increased from $3 billion in 2008 to about $15 billion by 2013.[23]
    b. India exports mainly chemicals, pharmaceuticals, and automotive parts, while imports include edible oils, sugar, and minerals. There is a significant trade imbalance in agricultural products, particularly edible oils.
4. Comprehensive Economic Partnership Agreement (CEPA) with South Korea: This agreement aims to promote trade in goods and services, as well as investment between India and South Korea.
    a. Trade between India and South Korea grew from $12 billion in 2010 to approximately $27 billion in recent years.[24]

b. Specifically, following the implementation of the Information Technology Agreement (ITA) – 1, tariffs on 165 electronic products were eliminated by 2005, resulting in a significant increase in the imports of communication equipment from that year onward.
c. India exports mineral fuels, cereals, and iron ore, whereas imports are dominated by electronic goods, automobiles, and steel. The imbalance is evident in the electronics and automobile sectors.

5. India-Japan Comprehensive Economic Partnership Agreement (CEPA): This agreement covers trade in goods, services, investment, and economic cooperation between India and Japan.
    a. Trade Increase: Bilateral trade increased from $10.3 billion in 2010 to about $21 billion by 2023.[25]
    b. Sectoral Imbalances: India's exports include mineral fuels, organic chemicals, and fish, while imports primarily consist of machinery, electronics, and iron and steel products. The trade imbalance is significant in machinery and electronics.

Following are some more recent examples of RTAs that India has entered into, along with their potential benefits and problems for India:

1. India-UAE Comprehensive Economic Partnership Agreement (CEPA) (2022):

   a. Benefits:
      i. Enhanced market access for Indian exports in sectors like gems and jewellery, textiles, agriculture, and engineering.
      ii. Increased investment opportunities for Indian companies in the UAE.
   b. Problems:
      i. Concerns about rising imports from the UAE, particularly in sectors like copper and dairy products, potentially impact domestic industries.
2. India-Australia Economic Cooperation and Trade Agreement (ECTA) (2022):
   a. Benefits:
      i. Improved market access for Indian exports, particularly in sectors like textiles, gems and jewellery, and engineering goods.
      ii. Increased opportunities for Indian service providers, such as in IT, education, and healthcare.
   b. Problems:
      i. Concerns about increased competition from Australian agricultural imports, potentially affecting Indian farmers.

3. India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA) (2021):
    a. Benefits:
        i. Enhanced market access for Indian exports, especially in sectors like textiles, pharmaceuticals, and agriculture.
        ii. Increased cooperation in areas like tourism, education, and information technology.
    b. Problems:
        i. Limited potential for significant economic gains due to the relatively small size of the Mauritian market.
4. India-ASEAN Free Trade Agreement (ASEAN-India FTA) (2009, updated in 2022):
    a. Benefits:
        i. Increased market access for Indian exports in the ASEAN region, particularly in sectors like textiles, pharmaceuticals, and machinery.
        ii. Enhanced investment opportunities for Indian companies in ASEAN countries.
        iii. Post-implementation of AIFTA, India's trade with ASEAN countries surged significantly. From $42 billion in 2010, it rose to over $131 billion by 2019.
    b. Problems:

i. Concerns about rising imports from ASEAN countries, particularly in sectors like electronics and consumer goods, potentially impact domestic industries.
ii. Implementation challenges include non-tariff barriers and limited utilisation of the agreement by smaller businesses.

5. India-Singapore Comprehensive Economic Cooperation Agreement (CECA)
    a. Benefits:
        i. Trade Increase: India's trade with Singapore increased from $12 billion in 2005 to around $35 billion in recent years.[26]
    b. Problems:
        i. Sectoral Imbalances: Major exports from India include petroleum products, electronic goods, and organic chemicals, whereas imports include electronic goods and machinery. The imbalance is particularly in the high-tech and electronics sectors.
6. India-Sri Lanka Free Trade Agreement (ISLFTA)
    a. Benefits:
        i. Bilateral trade rose from $658 million in 2000 to over $5 billion by 2021.[27]
    b. Problems:

        i. Sectoral Imbalances: India exports petroleum products, automobiles, and pharmaceuticals to Sri Lanka, while imports include textiles, tea, and spices. The imbalance is notable in the automobile and petroleum sectors.

7. India-Malaysia Comprehensive Economic Cooperation Agreement (IMCECA)
    a. Benefits:
        i. Trade Increase: Trade between India and Malaysia grew from $10 billion in 2010 to around $19 billion by 2023.[28]
    b. Problems:
        i. Sectoral Imbalances: India exports refined petroleum products, maise, and machinery, while imports include palm oil, electronics, and machinery. The trade imbalance is pronounced in the palm oil sector.

Summary of Trade Data and Imbalances:

- Overall Trade Growth: India's RTAs have generally led to substantial increases in bilateral trade volumes.
- Export Sectors: Key export sectors benefiting from these agreements include petroleum products, chemicals, machinery, and pharmaceuticals.

- Import Sectors: Major import sectors with notable imbalances include electronics, machinery, automobiles, and agricultural products like palm oil and edible oils.
- Trade Imbalances: Imbalances are most significant in high-tech goods (electronics and machinery), automobiles, and specific agricultural products.

While India's RTAs have generally led to substantial increases in bilateral trade volumes, there are concerns about the potential impact on certain domestic industries and sectors due to increased competition from imports. Additionally, challenges related to implementation, utilisation, and non-tariff barriers must be addressed to fully realise the benefits of these agreements.

Non-tariff barriers (NTBs) in RTAs

Non-tariff barriers (NTBs) are trade restrictions imposed by governments that do not involve tariffs or duties on imports. These barriers can take various forms and can significantly impede trade flows, even after tariff reductions or eliminations through regional trade agreements (RTAs). Some common examples of non-tariff barriers include:

1. Technical barriers to trade (TBT):

a. Stringent product standards, regulations, and testing requirements may be difficult or costly for foreign producers to comply with.
b. Labelling requirements and packaging regulations.

2. Sanitary and phytosanitary (SPS) measures:

a. Food safety regulations, animal and plant health regulations, and product certification requirements.
b. Import bans or restrictions on certain agricultural or food products due to concerns over pests or diseases.

3. Import licensing and customs procedures:

a. Complicated or burdensome import licensing procedures and documentation requirements.
b. Excessive customs clearance procedures and delays at borders.

4. Quotas and import restrictions:

a. Quantitative restrictions on imports, such as quotas or import bans on certain products.
b. Seasonal or temporary import restrictions.

5. Subsidies and domestic support measures:

a. Government subsidies or support programs that favour domestic producers make it difficult for foreign producers to compete.
b. In WTO terminology, subsidies are categorised into "Boxes" using the colours of traffic lights: green (permitted), amber (slow down, i.e., be reduced), and red (forbidden). In agriculture, the classification is more complex. The Agriculture Agreement does not include a Red Box, although domestic support that exceeds the reduction commitment levels in the Amber Box is prohibited. Additionally, there is a Blue Box for subsidies linked to programs that limit production. Developing countries also have exemptions, often referred to as an "S&D Box" (Special and Differential Treatment Box).

6. Intellectual property rights (IPR) restrictions:

a. Inadequate protection or enforcement of intellectual property rights, such as patents, trademarks, or copyrights.
b. The areas of intellectual property encompass copyright and related rights (covering the rights of performers, producers of sound recordings, and broadcasting organisations); trademarks, including service marks; geographical indications, including appellations of origin; industrial designs; patents, which also cover the protection of new plant varieties; the layout-designs of integrated circuits; and undisclosed information, such as trade secrets and test data.

7. Government procurement policies:

a. Favouring domestic suppliers or imposing local content requirements in government procurement contracts.
b. The Agreement on Government Procurement (GPA) is a plurilateral agreement within the WTO framework, meaning that not all WTO members are parties to it. Currently, the Agreement includes 22 parties, encompassing 49 WTO members. Additionally, 35 WTO members and observers participate in the Committee on Government Procurement as observers, with several members having initiated accession negotiations.
c. The primary objective of the GPA is to mutually open government procurement markets among its parties. Through multiple rounds of negotiations, GPA parties have opened procurement activities worth more than US$ 1.7 trillion annually to international competition, allowing suppliers from GPA parties to offer goods, services, or construction services.[29]
d. The GPA mainly consists of two parts: the text of the Agreement and the parties' market access schedules of commitments.
e. The Agreement's text sets rules to ensure open, fair, and transparent conditions of competition in government procurement. However, these rules do not automatically apply to all procurement activities of each party. Instead, the coverage schedules are crucial in

determining whether a procurement activity falls under the Agreement. Only procurement activities conducted by covered entities purchasing listed goods, services, or construction services that exceed specified threshold values are covered by the Agreement.

8. Currency manipulation and exchange rate policies:

a. Artificially undervalued or managed exchange rates that make imports more expensive and exports cheaper.

These non-tariff barriers can significantly increase the costs and difficulties associated with exporting to or importing from a particular market, even after tariff reductions or eliminations through RTAs. Addressing and minimising these barriers is often a key objective in regional trade agreement negotiations to ensure that the benefits of tariff reductions are not offset by other trade-restrictive measures.

India has raised concerns about various NTBs in the RTAs it has entered into or is negotiating, particularly regarding technical barriers to trade, SPS measures, import licensing and customs procedures, quotas and import restrictions, IPR issues, government procurement policies, and rules of origin.

Non-tariff barriers faced by India

Specific examples of NTBs faced by Indian exporters include stringent product standards and regulations, import restrictions on certain agricultural and food products, complicated import licensing procedures, local content requirements in government procurement, and strict rules of origin criteria.

1. India-ASEAN Free Trade Agreement (AIFTA):

a. Technical barriers: Indian exporters have faced stringent product standards and labelling requirements in ASEAN countries for products like food, pharmaceuticals, and cosmetics.
b. Sanitary and phytosanitary measures: Import restrictions on certain agricultural and food products from India due to SPS concerns, particularly in countries like Indonesia and Malaysia.

2. India-South Korea Comprehensive Economic Partnership Agreement (CEPA):

a. Import licensing procedures: Complicated and time-consuming import licensing procedures in South Korea for products like textiles, chemicals, and steel.

b. Rules of origin: Stringent rules of origin criteria in the CEPA make it difficult for Indian exporters to take advantage of preferential tariff treatment.

3. India-Japan Comprehensive Economic Partnership Agreement (CEPA):

a. Technical barriers: Indian exporters have faced challenges in meeting Japan's stringent product standards and regulations, particularly in sectors like automobiles and electrical machinery.
b. Intellectual property rights: There are concerns about Japan's compulsory licensing provisions for pharmaceuticals, which could impact Indian drug exports.

4. India-Malaysia Comprehensive Economic Cooperation Agreement (CECA):

a. Sanitary and phytosanitary measures: Import restrictions on certain Indian agricultural and food products due to Malaysia's strict SPS regulations.
b. Government procurement policies: Local content requirements and preferences for domestic suppliers in government procurement contracts in Malaysia.

5. India-Singapore Comprehensive Economic Cooperation Agreement (CECA):

a. Technical barriers: Indian exporters have faced challenges in meeting Singapore's stringent product standards and regulations for sectors like food products and consumer goods.
b. Customs procedures: Concerns about delays and inefficiencies in customs clearance procedures at Singapore's borders, leading to higher transaction costs.

These examples highlight some of the specific non-tariff barriers that Indian exporters have encountered in various RTAs despite the tariff reductions or eliminations achieved through these agreements. Addressing these NTBs has been a priority for India in its trade negotiations to ensure that the benefits of RTAs are fully realised.

India's Stance at the WTO

India has taken a firm stance at recent World Trade Organization (WTO) meetings, advocating for the interests of developing countries and seeking reforms in the multilateral trading system. Following are some key aspects of India's recent stance at the WTO:

1. Challenging the developed countries' stance:

a. India has been vocal in challenging the developed countries' narrative and their attempts to introduce new issues like e-commerce, investment facilitation, and gender into the WTO agenda without addressing the core issues of development and agriculture.
b. India has argued that the existing mandates, such as the Doha Development Agenda, should be prioritised before introducing new topics.

2. Demanding a permanent solution for public stockholding:

a. India has been a leading voice in demanding a permanent solution to the issue of public stockholding for food security purposes, which has remained unresolved from the Bali Ministerial Conference in 2013.
b. India has sought to amend the WTO's Agreement on Agriculture to allow developing countries to procure and stockpile food grains for their public distribution systems without facing penalties.

3. Opposing plurilateral agreements:

a. India has opposed the pursuit of plurilateral agreements (agreements among a subset of WTO members) on issues like e-commerce, arguing that such agreements undermine the core principles of the

WTO, such as non-discrimination and consensus-based decision-making.

4. Seeking a balanced outcome on fisheries subsidies:

a. India has advocated for a balanced outcome in the negotiations on disciplining fisheries subsidies, ensuring that the interests of small-scale and artisanal fishers in developing countries are protected.

5. Highlighting the need for Special and Differential Treatment (S&DT):

a. India has emphasised the importance of Special and Differential Treatment provisions for developing countries, which provide flexibility and longer implementation periods for certain WTO agreements.
b. India has argued that these provisions should be strengthened, not eroded, to address the development concerns of poorer nations.

6. Calling for reform of the WTO's dispute settlement mechanism:

a. India has supported the need for reforms in the WTO's dispute settlement mechanism, particularly the Appellate Body, to address issues like the appointment of Appellate Body members and concerns over judicial overreach.

Overall, India's recent stance at the WTO has focused on safeguarding the interests of developing countries, prioritising development and agriculture issues, and seeking a more balanced and equitable multilateral trading system.

Case Study - South Africa

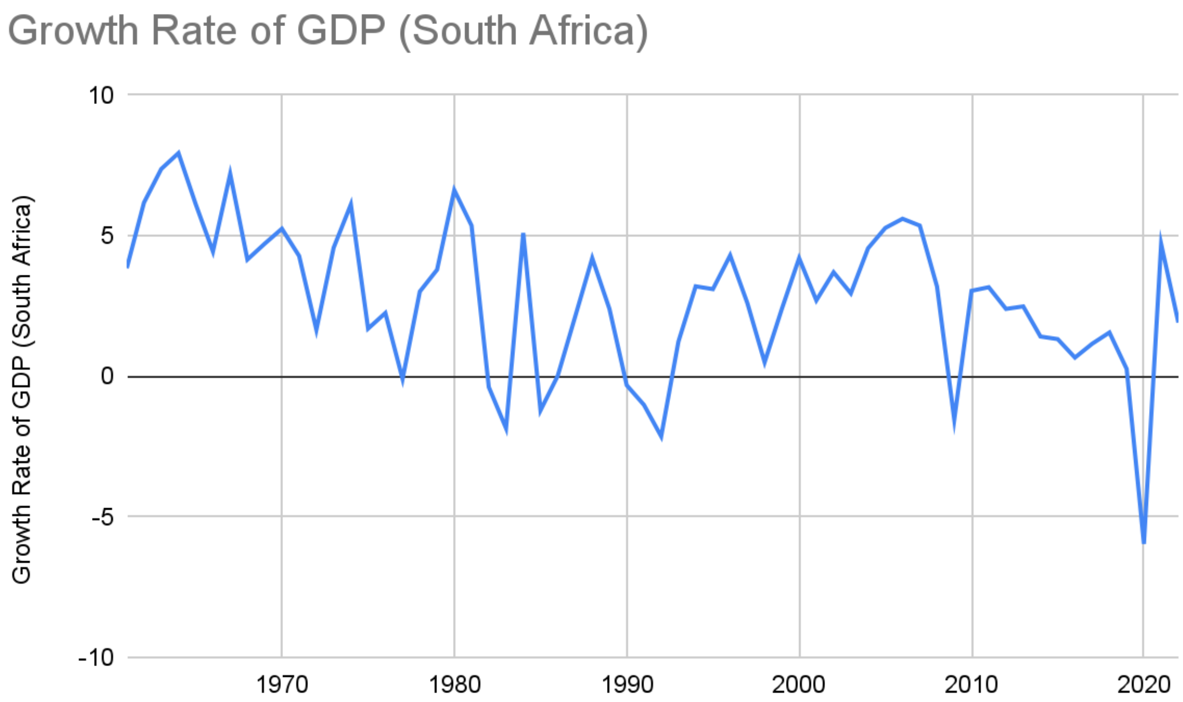
South Africa (here onwards SA) advocates a developmental integration approach in all African regional economic integration initiatives, where market integration is aligned with industrial capacity and infrastructure development to maximise the economic benefit. SA has consistently championed the development integration agenda in a range of trade-related fora/initiatives such as the Southern African Customs Union (SACU), the Southern African Development Community (SADC), the Tripartite Free Trade Area (T-FTA) and the African Continental Free Trade Area (AfCFTA).

FTAs and RTAs that South Africa is part of:

Name of FTA/RTA	Year
Southern African Customs Union (SACU)	2015
The Southern African Development Community (SADC)	2012
The European Union-South African Trade and Development Cooperation Agreement	2016
Africa Free Trade Zone - Tripartite Free Trade Agreement TFTA (SADC+EAC+COMESA)	2008
African Continental Free Trade Area (AfCFTA)	2021

Effectiveness of FTAs in South Africa's Macroeconomic Gains

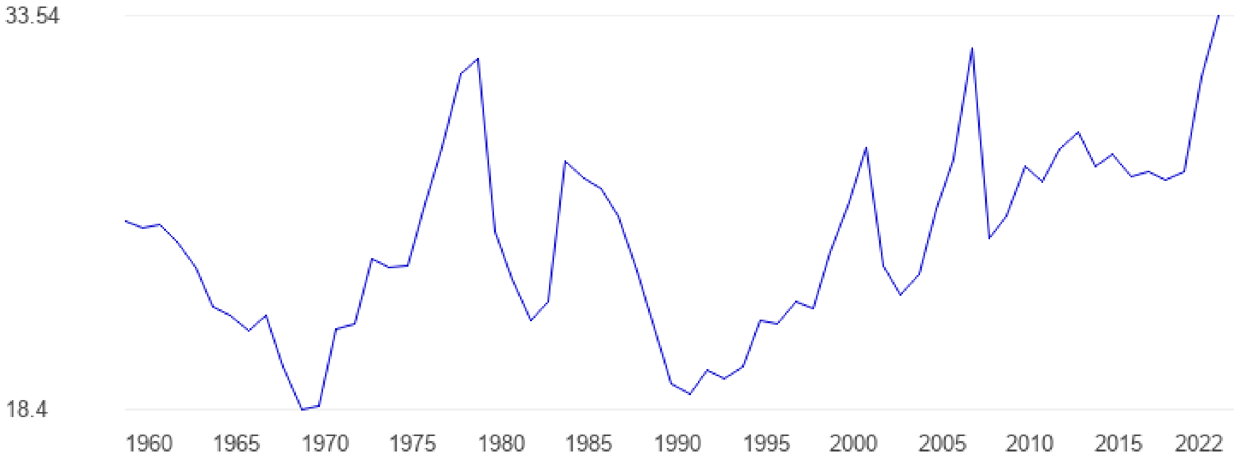
SA GDP Growth Rate



Source- *Data Catalog, World Bank (2022)*[30]

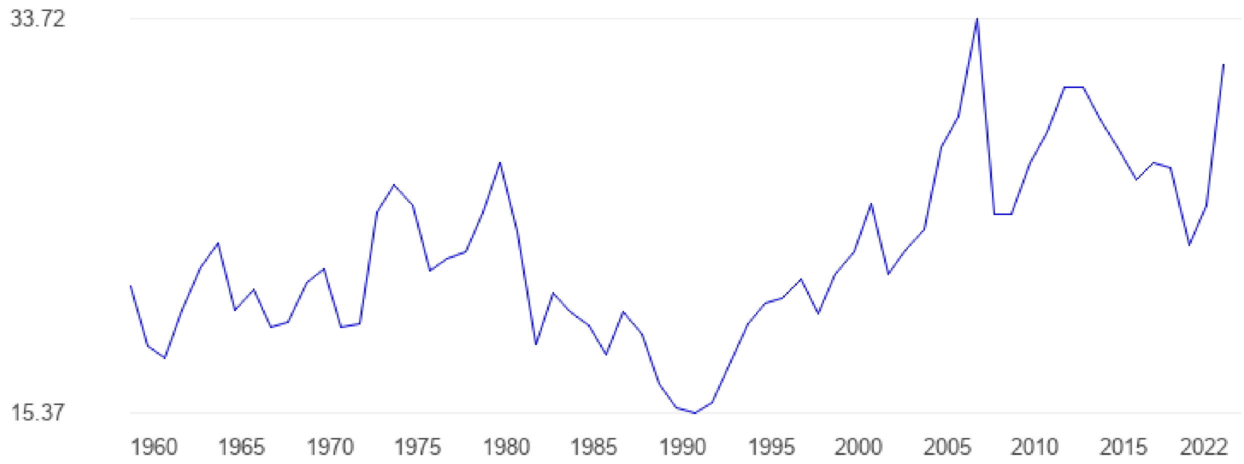
The South African economy has grown slowly at under 2% year-on-year for over a decade.

SA Growth of Exports as per Cent of GDP [31]



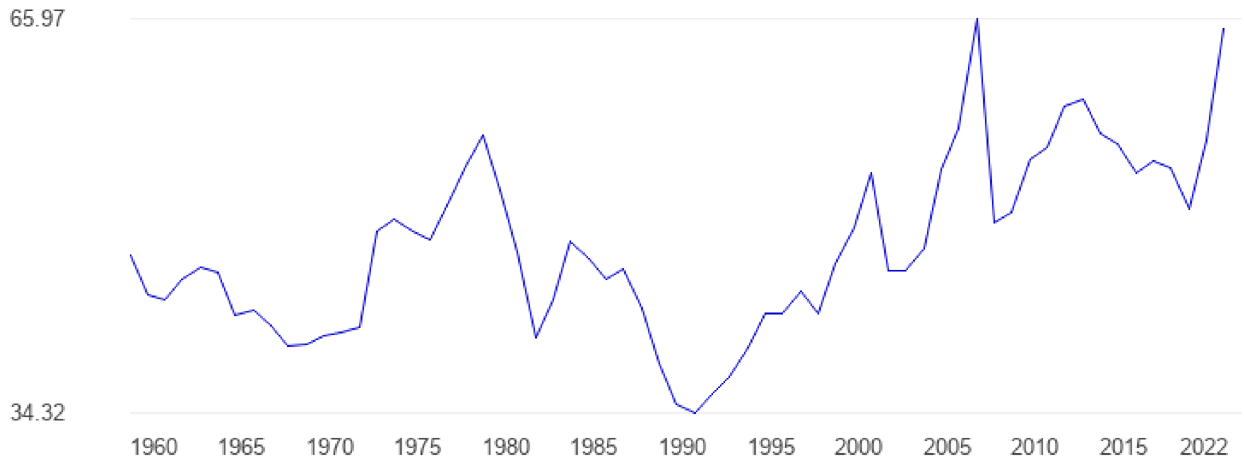
If exports are about 15 per cent or less of GDP, the economy is considered relatively closed, as only 15 per cent of its products are sold internationally.

SA Imports of Goods as per cent of GDP[32]



The economy is considered relatively closed if imports are about 15 per cent or less of GDP.

SA Trade Openness (Exports plus Imports as per cent of GDP)[33]



From 2000 onwards, the South African economy has experienced modest growth, with GDP increasing at less than 2% annually over the last decade. This slow growth contrasts with the higher trade growth rate, which has seen a 20.06% increase compared to the global average of 12.59%. Implementing Free Trade Agreements (FTAs) appears to have had a mixed impact.

South Africa's effectively applied tariff-weighted average stands at 4.46%, and the Most Favored Nation (MFN) tariff is 6.62%, suggesting moderate tariff levels remain. These figures are essential for understanding how FTAs influence trade liberalisation. A lower tariff-weighted average suggests that

South Africa has reduced tariffs on goods imported from its FTA partners, promoting trade by lowering costs and making foreign goods more competitive in the domestic market.

Nevertheless, the increase in trade volume post-FTAs indicates some positive effects on trade liberalisation. Exports and imports of goods and services as a percentage of GDP stand at 31.19% and 25.02%, respectively, signalling a relatively open economy. This openness is further underscored by the combined trade openness indicator (exports plus imports as a percentage of GDP). Despite this, the export growth rate remains modest as a percentage of GDP, implying that the FTAs may not have fully capitalised on potential growth opportunities.

Effectiveness of FTAs in South Africa’s Liberalisation

Trade Barriers and Intra-Regional Trade

According to the WTO, in 2015, Africa’s share of world trade was estimated to be 3%, and its intra-African trade was 18% of its global trade. SA is the largest contributor to intra-African trade, accounting for over 24.9%, with its trade increasing by 8.6% to R478.8 billion in 2017.

In 2008, the South African Development Community (SADC) declared a free trade area to boost the liberalisation of intra-regional trade in products and services in the region[34]. SADC gradually eliminated trade-related tariffs and duties in the region; by 2012, 98% had been eliminated. South Africa is the largest exporter to the SADC region, accounting for 60% of intra-regional trade with a comparatively minimum mean tariff MFN rate of 7.8.
SA decided to join the Economic Partnership Agreement (EPA) between the EU and the SADC EPA group (Botswana, Lesotho, Namibia, Mozambique, South Africa and Eswatini) to establish a regional agreement with the EU and to secure further market access in 2016, especially in agriculture.

This agreement improved SA's market access for 32 agricultural products, with a significant improvement in SA's access to the EU market for wine (110 million litres duty-free), sugar (150 000 tons duty-free) and ethanol (80 000 tons duty-free)[35]. Total trade between SA and the EU has been consistently increasing over the past years, recording an increase from R449 Billion in 2013 to R600 Billion in 2017, an increase of 34%[36]. The Trade Balance remains in favour of the EU, though it has declined over the past 5 years, recording a 35% decline from R115 Billion in 2013 to R76 Billion in 2017.

The Tripartite Free Trade Agreement was signed in 2008 (T-FTA) between the regional blocs (SADC+EAC+COMESA) in the African Union, which combined markets of 26 countries with a population of nearly 625 million and a combined GDP of US$1.6 trillion. Modalities for tariff negotiations were 60% immediate liberalisation, 25 % over 5 to 8 years and 15 % sensitive but subject to negotiations. The negotiations for the TFTA were launched in 2011 and culminated in the 2015 signing of the TFTA agreement on trade in goods. Although over 20 countries signed the agreement, only four (Egypt, Kenya, South Africa and Uganda) have ratified it. For the TFTA to come into force, 14 ratifications are needed. South Africa’s trade with TFTA countries represents about 16% of SA’s trade with the world. However, the bulk of the trade is with SADC countries.

44 out of the 55 AU member states signed the consolidated text of the African Continental Free Trade Area (AfCFTA) Agreement in 2019, and by 2022, 53 countries in the African Union have joined AfCFTA. The main objectives of the AFCFTA, as conceptualised, are to create a single continental market for goods and services, with the free movement of business persons and investments, and thus pave the way for the acceleration of the establishment of the Customs Union. AfCFTA aims to achieve this by liberalising goods and services trade across the continent,

facilitating trade by enhancing border processes, and implementing behind-the-border measures.

On trade in goods, AfCFTA signatories have agreed to eliminate tariffs on 90 per cent of non-sensitive product lines within five years (10 years for least developed countries [LDCs]) from January 1, 2021, while 7 per cent of tariff lines (for sensitive goods) are to be liberalised within 10 years (13 years for LDCs). Each member may exclude no more than 3 per cent of tariff lines from liberalisation, representing no more than 10 per cent of its intra-African imports. By July 2022, rules of origin had been agreed upon for 88 per cent of goods (with the remaining goods relating to automobiles, textiles, and clothing), and 46 countries had submitted their tariff schedules. Additionally, signatories have agreed to reduce non-tariff measures to trade by creating institutional structures to eliminate such barriers and reporting and monitoring tools.

However, the analysis of the evolution of intra-African trade, in particular, reflects two main considerations: the trade policy landscape is fragmented with multiple regional economic communities (RECs) that generally have provided limited within-bloc integration and little between-bloc integration, with still substantial tariff and nontariff measures (NTMs); and a trade environment (structural factors that affect trade such as transport networks and border processes) that is more challenging than elsewhere.

Trading under the AfCFTA framework was slated to start in July 2020, but it has been postponed due to the deadly coronavirus. Yet recent developments suggest many African countries are worrisomely unprepared to implement their AfCFTA commitments when these go into effect. In August 2019, just three months after celebrating its signing of the AfCFTA, Nigeria banned the movement of all goods from countries with which it shares a land border: Benin, Niger and Cameroon, effectively banning all trade—import and export—with its neighbours to bolster Nigeria's agricultural sector. Market regulations also vary a lot from country to country. Therefore, harmonising the regulations will be a main challenge in the region's economic integration and free trade.

Developmental Paradoxes and Climate Change and Energy Concerns

Trade within SADC has been stalled by poor trade infrastructure, such as the bad state of major regional roads, poor railway linkages, the landlocked nature of many countries in the region, the concentration of seaports in a few member countries, and expensive air transportation. These challenges also include inadequate energy supplies, low levels of technology, obstacles to immigrant documentation, poor storage facilities, and ineffective border processing facilities, which have led to significant post-harvest losses, inadequate logistics, and decreased product quality.

Intra-regional liberalisation in SADC has generally been cautious. Member states have delayed or back-loaded their adjustment to protect domestic industries and maintain revenue streams from customs duties. The role of private sector organisations in the negotiation process has also been weak. SADC countries generally adopted a cautious approach to intra-regional trade liberalisation, wanting to continue protecting existing domestic industries and fearing losing tariff revenue. Unfortunately, the slow phase-down of tariffs gave countries the space to maintain protection.[37]

NTB continues to be a concern, and complicated and restrictive Rules of Origin (ROO) increase administrative costs and make it difficult for exporters to take advantage of SADC preferences. As such, they constitute a serious obstacle to liberalising intra-regional trade. For example, complying with import and export procedures takes 49 and 41 days, respectively, on average, in SADC (and more than 60 days in five SADC member countries).

The latest Phase II of the AfCFTA negotiations covers intellectual property rights, investment protection, competition policies, digital trade, and the topic of women and youth in trade. So far, draft protocols have been prepared for the first three of these areas. Again, despite the optimism of the AfCFTA, the continent remains plagued by unpredictable tariff and non-tariff barriers, poor infrastructure, few supportive policies and legal framework, a lack of a transportation network, heavy layers of government bureaucracy, and still-high levels of corruption.

A key and novel feature in the agreement is the Protocol on Investment, designed to support the continent’s green transition by promoting investment in green sectors, encouraging incentives for low-carbon investments, facilitating technology transfer and developing green investment standards. The protocol also includes commitments against a “race to the bottom” on environment, labour and consumer standards to attract foreign investment.

While the relationship between trade and climate change is complex, regional trade integration in Africa can be an important element of a climate adaptation strategy. For example, by supporting diversification and growth, regional trade integration could boost countries’ resilience by reducing their overreliance on sectors that are at increasing risk of being adversely affected by change-related natural disasters.

Further, by facilitating the flow of goods across borders, regional trade integration would help countries diversify sources of climate-vulnerable products. Finally, regional trade integration could open up opportunities for increased regional trade related to climate-related infrastructure, services, and finance.[38]

Digital Trade

Adopting new technologies would enable gains in productivity and competitiveness, strengthening the continent's growth potential. Further, digitalisation (a key element of technological progress in recent years) can promote the growth of trade in services by making some previously nontradeable services tradable.

This includes, in particular, business services such as accounting, advertising, and IT services. Digitalisation also creates opportunities for greater goods trade through e-commerce and improvements in the trade environment. For example, it can help accelerate border and customs processes and facilitate making cross-border payments.

Intraregional trade would also benefit from improved cross-border payment systems within Africa, and initiatives are underway to strengthen these systems through digitalisation. In recent years, payment platforms have emerged that allow payment settlement in local currencies within certain regions, replacing more complex and expensive transactions with correspondent banks outside Africa.

However, there are as yet no links between these regional platforms, hindering trade between sub-Saharan African regions and between sub-Saharan and North Africa. To address this challenge, the AfCFTA Secretariat and the African Export-Import Bank launched the Pan-African Payments and Settlement System (PAPSS) in January 2022. This cloud-based system aims to link African central banks, commercial banks, and FinTech firms into a network to enable quicker transactions among the continent's countries in their currencies. The AfCFTA Secretariat and the Arab Monetary Fund announced plans to ensure interoperability between PAPSS and Buna, the cross-border multi-currency payment system in the Arab region.

Approach to WTO

South Africa's approach towards the WTO system has been positive in advocating for a multilateral trading system that decisively supports the development needs of African countries. One strong proposition that SA maintained was that any package agreed in WTO negotiations must have clear characteristics that support the development needs of the countries and must support inclusive growth through international trade.

Also, the demand was to continue the cooperation in e-commerce, address the digital divide, and explore options for promoting digital industrial policy through a rollover of the current e-commerce Work Programme and a temporary moratorium on customs duties on electronic transmissions. However, similar to other African and Asian countries, the core proposition of SA includes special and differential treatment and less than full reciprocity, as well as eliminating trade-distorting domestic support that constrains Africa's full potential in agricultural production and trade.

Conclusion

The advocates of a multilateral trading system contend that institutions such as the WTO need to be established and strengthened to deal with the world's emerging trade problems. One crucial way to address WTO's functional challenges is by promoting international trade through a more inclusive perspective while moving towards non-discriminatory free trade by countries slowly reducing or eliminating their barriers to trade without favouring one set of partners over another.

However, the continued promotion of the Preferential Trading System implies two potential problems for the multilateral trading system. One is the economic problem of trade creation and trade diversion. Any agreement in which the amount of trade diversion exceeds the amount of trade creation will lead to a net reduction in economic growth. The other problem with discriminatory programs and agreements is that they may create a disincentive to multilateral liberalisation, with countries being more focused on preserving the margins of preference that they enjoy in these agreements than they are in negotiating new, non-discriminatory reductions in trade barriers.

At the same time, regional trading blocs continue to play a bigger role in liberalising international trade and effectively pushing the member countries to open up their economies and address the niche challenges to global trade. The most likely outcome for the future international trade governance is a two-pillar structure in which the WTO continues to govern with its 1994-era rules. In contrast, the new rules for international production networks, or "global value chains," are set by a decentralised process of sometimes overlapping and inconsistent megaregional agreements.[39]

For most developing countries, commitments at the regional level may even be better than those within the context of the WTO under some circumstances. This is because commitments at the WTO level tend to be more general, whereas regional commitments are more focused. Moreover, as they are undertaken within the context of a (most likely, geographically-based) bilateral or small group of countries with implicit high costs of backtracking, an FTA could potentially be more credible.

In addition, the WTO includes several flexibilities in the form of the enabling clause that would make it easier to backtrack, and hence, the lock-in effects could be less convincing. To avoid this circumstance, making commitments at the FTA level may be a more realistic option for many developing countries.

Annexure

Regional trade agreements have evolved beyond mere trade facilitation tools to encompass broader economic, social, and environmental objectives. India's engagement in various RTAs presents an opportunity to examine how these agreements impact climate change mitigation, energy transitions, and adaptation to the information age, including the rise of Radically Networked Societies (RNS) and artificial intelligence (AI). Furthermore, we need to explore the complexity of these interactions, highlighting the feedback loops that influence outcomes in both positive and negative directions.

Climate Change Implications

RTAs can significantly impact its climate change policies and strategies. These agreements can facilitate the transfer of green technologies and promote environmental standards across member countries. However, the effectiveness of these measures depends on robust environmental clauses within the RTAs and India's ability to enforce them.

1. Positive Feedback Loops:
    a. Technology Transfer: RTAs can enhance the flow of climate-friendly technologies between member countries, boosting India's renewable energy capacity. For instance, through RCEP, India can get access to advanced solar and wind technologies from countries like China and Australia, facilitating its target of 175 GW of renewable energy by 2022.

   b. Collaborative Research: Joint research initiatives on climate resilience and adaptation can be promoted through RTAs. Under the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), India collaborates with countries like Thailand and Bangladesh on coastal management and climate change adaptation projects.

2. Negative Feedback Loops:
   a. Regulatory Divergence: Differing environmental standards among RTA members can create regulatory fragmentation. For example, India's stricter emission norms might conflict with less stringent regulations in other SAFTA countries, complicating enforcement.
   b. Trade-Environment Tensions: Increased trade volumes may lead to higher emissions if not coupled with stringent environmental regulations.

Energy Transition

RTAs can play a crucial role in India's energy transition by fostering regional cooperation in energy infrastructure, policy harmonisation, and investment in renewables. The interplay between trade policies and energy strategies under RTAs can accelerate the shift from fossil fuels to sustainable energy sources.

1. Positive Feedback Loops:
    a. Renewable Energy Investment: RTAs can attract foreign direct investment in India's renewable energy sector. According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI inflows in the non-conventional energy sector increased by 66% from $6.1 billion in 2018 to $10.1 billion in 2021, partially driven by RTA engagements.
    b. Grid Interconnections: Regional agreements can facilitate cross-border energy trade and grid interconnections. The SAARC (South Asian Association for Regional Cooperation) energy cooperation framework has led to electricity trade agreements between India and Bhutan, enhancing renewable energy integration.
2. Negative Feedback Loops:
    a. Fossil Fuel Dependency: Without clear commitments, RTAs may inadvertently support fossil fuel industries. For instance, the India-ASEAN Free Trade Agreement led to an increase in the import of coal from Indonesia, counteracting efforts towards reducing fossil fuel dependence.
    b. Market Volatility: Fluctuations in global energy markets influenced by trade agreements can create uncertainty in renewable energy investments. The volatility in oil prices due

to geopolitical tensions within the OPEC+ framework can indirectly affect India's energy market stability.

Information Age and Radically Networked Societies

The information age, characterised by rapid digitalisation and the rise of RNS, significantly interacts with RTAs. These agreements can enhance digital trade, data flows, and cybersecurity collaboration, positioning India as a hub in the global digital economy.

1. Positive Feedback Loops:
    a. Digital Trade Facilitation: RTAs that include provisions for digital trade can streamline e-commerce, fintech, and AI-driven industries. The Comprehensive Economic Partnership Agreement (CEPA) with Japan includes digital trade provisions, helping India boost its IT and services exports, which reached $150 billion in 2021.
    b. Innovation Ecosystems: Collaborative innovation hubs and knowledge exchanges fostered by RTAs can drive technological advancements and R&D. The India-EU Strategic Partnership on Innovation and Technology aims to enhance cooperation in AI, robotics, and big data.
2. Negative Feedback Loops:

a. Data Sovereignty Issues: Cross-border data flows may conflict with national data protection regulations. India's Personal Data Protection Bill mandates data localization, which can be at odds with data flow provisions in agreements like RCEP.
b. Digital Divide: Unequal digital infrastructure among RTA members can exacerbate the digital divide. Despite high internet penetration in urban areas, rural India lags behind, which can hinder the full benefits of digital trade under RTAs like SAFTA.

Complexity and Feedback Loops

The complexity inherent in RTAs involves multiple stakeholders, dynamic interactions, and feedback loops that can either reinforce or counteract intended outcomes. Understanding these complexities is crucial for designing effective policies.

1. Positive Feedback Loops:
    a. Policy Synergies: Harmonizing trade, climate, and digital policies within RTAs can create synergistic benefits, enhancing overall effectiveness. India's policies on renewable energy standards can align with ASEAN's green energy initiatives, promoting regional sustainability.

   b. Adaptive Mechanisms: Flexible RTA frameworks that allow for periodic review and adjustment can adapt to changing economic and environmental landscapes. The India-Japan CEPA includes provisions for regular consultations, allowing adjustments to meet evolving trade and environmental standards.

2. Negative Feedback Loops:
   a. Policy Conflicts: Incoherent policies across different RTAs can lead to conflicting regulations. India's stringent e-waste management laws may conflict with more lenient regulations in other SAARC countries, creating compliance challenges.
   b. Implementation Gaps: Disparities in implementation capacities among RTA members can create gaps in policy enforcement, undermining objectives. India's ambitious renewable energy targets may face hurdles if neighbouring countries lack the infrastructure to support cross-border energy trade.

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different institutions and forums like the G20, multilateral development banks, climate funds, etc. There is also a growing emphasis on integrating different finance streams for climate change, sustainable development and nature/biodiversity conservation given their inter-linkages. Forums like the G20 provide a platform to discuss this integrated approach beyond just the climate lens of the UNFCCC. Certain economic, fiscal and financial policies that can enable or constrain climate finance flows are discussed in bodies like the G20, IMF, World Bank etc. Aligning these policies with the NCQG objectives requires engagement in those forums. Lastly, robust systems for tracking climate finance flows may require coordination across institutions beyond just the UNFCCC process.

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