Free Trade Agreements to Lift Textile Exports

Why in news?

India's modest export performance of India's textiles sector can be negated when import duties in developed countries become zero through free trade agreements (FTAs).

What is Free Trade Agreement (FTA)?

- A **free trade agreement** is a pact between two or more nations to reduce barriers to imports and exports among them.
- Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange.
- FTAs also cover other areas such as intellectual property rights (IPRs), investment, government procurement, competition policy, etc.
- India is **negotiating FTAs** with countries such as the European Union, Canada, the U.K., and Israel.

Types of FTA

1. PTA (Preferential Trade Agreement)
2. CECA (Comprehensive Economic Cooperation Agreement)
3. CEPA (Comprehensive Economic Partnership Agreement)
4. Customs Union Common Market and Economic Union

To know more about FTAs, click here

What is the significance of FTAs?

- **Market access** - By eliminating tariffs and some non-tariff barriers, FTA partners get easier market access into one another's markets.
- **Preferential treatment** - Exporters prefer FTAs to multilateral trade liberalization because they get preferential treatment over non-FTA competitors.
- **Protection of local exporters** - FTAs protect local exporters from losing out to foreign companies that might receive preferential treatment under other FTAs.
- **Increased foreign investment** - There is also possibility of increased foreign investment from outside the FTA.

The duty in the EU and the UK on most garments imported from India is 12%.

What is the status of India's textile sector?

- India has a **4% share** of the global trade in textiles and apparel.
- India's textile and apparel exports stood at $ 44.4 billion in FY22, a 41% increase YoY.
- **The US** is the single largest market for India's textile and apparel exports.
- India is the world's largest producer of **cotton**.
- India's textiles industry has around 4.5 crore employed workers across the country.

What can be done to boost exports to developed countries post FTA?

- **Engagement -** Indian CEOs must start discussing with counterparts on how FTA-led duty elimination will allow them to offer better terms.
- **Setting up design -** Studios in partner countries will enable a direct interface with buyers like Japan
- **Investment in high-fashion branded apparel** - The share of clothing bought by developed countries in Indian exports is less than 40%.
- **Not incentivisation of export of fibre/yarn** - The RoDTEP (Remission of Duties and Taxes on Exported Products) allow firms to export at a price lower than domestic which reduces the availability of inputs for high-value-added apparel exports.
- **Negotiations on non-tariff barriers** – There is a need to negotiate on possible non-tariff barriers as well.
- **Strengthen the weaving and processing segments -** Only large units with the latest technology can meet the quality requirements.
- **Liberalise labour laws** - This will free the sector to invest in large units with 1,000 workers or more under one roof.

References

1. The Hindu Businessline | How FTAs can lift textile exports
2. IBEF | Textile sector of India

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