

From Tariff Reduction to Strategic Co-Operation: Explaining India's Experience with Ftas

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ABSTRACT

The rise of free trade agreements (FTAs) and strategic economic partnerships reflects a global shift from multilateralism under the World Trade Organization (WTO) toward bilateral and regional mechanisms of trade liberalization. While the economic rationale for FTAs is well-established in classical and neoclassical trade theory, contemporary debates emphasize their broader strategic dimensions, including non-tariff barrier reduction, regulatory cooperation, and political alignment. This paper offers a theoretical exploration of how FTAs and strategic partnerships contribute to reducing both tariff and non-tariff barriers, thereby fostering export efficiency and deeper economic integration. Drawing upon theories of comparative advantage, new trade theory, and strategic trade policy, the article conceptualizes FTAs as more than tariff-cutting instruments; rather, they are institutional frameworks that embed cooperation on standards, dispute resolution, digital trade, and investment. Unlike empirical studies relying on secondary datasets, this work builds a normative argument: the effectiveness of FTAs depends not only on tariff concessions but also on institutional quality, mutual recognition of standards, and the ability to manage asymmetries between developed and developing economies. The discussion underscores the need for theoretical clarity on the complementarity between FTAs and strategic partnerships in shaping the future architecture of global trade.

Keywords: Free Trade Agreements, Strategic Economic Partnerships, Trade Liberalization, Non-Tariff Barriers, Export Efficiency, Strategic Trade Policy, Institutional Quality

1. Introduction

Multilateralism under the World Trade Organisation (WTO) has given way to bilateral and regional arrangements, particularly Free Trade arrangements (FTAs) and strategic economic partnerships, in recent decades. Global value chains are becoming more complicated, multilateral agreements are becoming less effective, and non-economic factors like geopolitical alignment, sustainability, and digital trade are becoming more important (Bhagwati, 1995; Baldwin, 2016). The traditional role of FTAs was to lower tariffs and promote comparative advantage, but they now cover NTBs, investment, intellectual property, and regulatory cooperation (Baier & Bergstrand, 2007).

Classical and current trade ideas underpin FTA and strategic partnership research. Traditional trade theory, based on Ricardo's comparative advantage, regards trade liberalisation as an efficiency boost (Krugman & Obstfeld, 2009). FTAs increase market size and provide dynamic welfare effects under new trade theory's economies of scale and imperfect competition (Helpman & Krugman, 1985). Strategic trade theory suggests that governments can interfere to gain an edge in high-entry, oligopolistic industries (Brander & Spencer, 1985).

Strategic economic partnerships expand beyond trade in goods to include technology cooperation, infrastructure development, and digital trade (Aggarwal & Fogarty, 2004). Such alliances often lead to deeper FTAs or reduce bargaining

power asymmetries. This paper uses a theoretical approach to examine how FTAs and strategic partnerships reduce tariff and non-tariff trade barriers and boost export efficiency, while acknowledging that institutional quality and regulatory harmonisation are crucial (Rodrik, 2008).

2. Motivation of the Study

This study was driven by the changing nature of global trade governance and the need to comprehend FTAs and strategic economic partnerships' theoretical foundations. Countries increasingly use bilateral and regional agreements to seek market access and regulatory harmonisation when WTO negotiations stagnate (Baldwin, 2016). FTA tariff reductions are simple, but non-tariff barriers (NTBs) including standards, certification requirements, and rules of origin hinder trade benefits (Maskus & Wilson, 2001). Despite participating in various FTAs and regional frameworks, emerging economies like India generally have low export efficiency due to institutional deficiencies and NTB restrictions (Kaushal, 2021). Traditional trade theory understates political economy, institutional quality, and strategic collaboration in outcomes (Rodrik, 2008). This work fills that theoretical vacuum by explaining how FTAs and strategic partnerships lower tariff and non-tariff barriers and promote collaboration. The research advances theoretical clarity and contributes to global trade integration architectural debates.

3. Literature Review

3.1. Tariff Reduction and Trade Liberalization

Free Trade Agreements (FTAs) were originally justified by tariff reduction, which decreases trade costs and boosts comparative advantage. Ricardo (1817)'s classical trade theory proposes that removing tariff barriers allows countries to specialise in efficient goods, boosting welfare. In subsequent empirical study, tariff reductions have consistently improved bilateral trade flows. FTAs roughly treble trade flows between parties within a decade, according to Baier and Bergstrand (2007). Liberalised trade through tariff elimination boosts income growth and productivity, according to Frankel and Romer (1999). While tariff liberalisation is still substantial, its marginal impact has declined in recent decades due to low tariffs in many sectors (Baldwin, 2011). Instead, attention has switched to “beyond-the-border” issues not covered by tariff agreements. This change takes FTAs from tariff-cutting tools to frameworks for regulatory harmonisation, institutional collaboration, and dispute resolution (Lawrence, 1996). Once the cornerstone of trade liberalisation, tariff reduction is now a necessary but insufficient prerequisite for improving export efficiency in the current trading system.

3.2. Non-Tariff Barriers (NTBs) and Standards

As tariffs have fallen globally, non-tariff barriers (NTBs) have emerged as the primary impediments to trade. NTBs encompass a wide range of measures, including sanitary and phytosanitary (SPS) standards, technical barriers to trade (TBTs), quotas, and restrictive rules of origin (Maskus & Wilson, 2001). According to the United Nations Conference on Trade and Development (UNCTAD, 2013), NTBs now affect over half of global trade, often outweighing tariff effects. Scholars argue that NTBs can serve both legitimate and protectionist purposes. While SPS and TBT measures may protect consumer health and safety, they often function as disguised restrictions on trade (Beghin et al., 2012). Kee, Nicita, and Olarreaga (2009) demonstrate empirically that NTBs raise trade costs significantly, with effects sometimes exceeding those of tariffs. In the context of regional agreements, regulatory divergence and conformity assessment procedures often prevent exporters from fully utilizing preferential access. In South Asia, for instance, mutual recognition of standards within the South Asian Free Trade Area (SAFTA) has been suggested as a mechanism to reduce transaction costs and improve market integration (De, 2017). Similarly, case studies of the India–ASEAN FTA indicate that exporters face procedural delays and high compliance costs due to divergent product standards and restrictive rules of origin (Arote et al., 2025). These findings highlight that FTAs must increasingly address NTBs to realize their full potential.

3.3. Institutional Quality and Trade Outcomes

Institutional quality has emerged as a decisive factor in determining whether FTAs deliver their intended benefits. North (1990) conceptualizes institutions as the “rules of the game” that structure economic interactions, while Rodrik (2008) argues that institutional capacity often explains more of the variation in economic performance than trade liberalization alone. In the context of FTAs, institutional quality affects the enforcement of rules of origin, the functioning of dispute settlement mechanisms, and the harmonization of customs procedures.

Empirical studies support this argument. Levchenko (2007) shows that countries with higher institutional quality tend to trade more in contract-intensive goods, reflecting the importance of governance and regulatory capacity. Anderson and Marcouiller (2002) further argue that insecurity and weak institutions act as implicit trade barriers, raising transaction costs. For emerging economies like India, the absence of strong institutions often results in underutilization of preferential tariffs and limited export efficiency (Kaushal, 2021).

From a theoretical standpoint, the “new institutional economics” provides a framework for integrating institutional quality into trade theory. It suggests that even when FTAs are signed, the degree of actual liberalization depends on domestic bureaucratic efficiency, legal certainty, and the predictability of policy regimes. Without institutional robustness, FTAs risk becoming “shallow integration” devices rather than engines of structural transformation (Lawrence, 1996).

3.4. Strategic Economic Partnerships: Beyond Tariff Liberalization

Strategic economic partnerships represent an evolution beyond traditional FTAs. Unlike agreements narrowly focused on trade in goods, these partnerships incorporate broader dimensions such as investment flows, infrastructure development, energy cooperation, technology transfer, and digital trade (Aggarwal & Fogarty, 2004). They often serve as stepping stones toward deeper integration or as complementary frameworks that mitigate the asymmetries inherent in bilateral trade negotiations.

The theoretical justification for strategic partnerships draws from **strategic trade policy**. Brander and Spencer (1985) argue that governments may intervene to support domestic firms in industries characterized by economies of scale and oligopolistic competition. Strategic partnerships, by embedding cooperation in high-technology sectors or infrastructure, effectively operationalize this theoretical insight in a cooperative rather than unilateral manner.

Case studies reinforce this theoretical argument. The India–Japan Comprehensive Economic Partnership Agreement (CEPA), for instance, extends beyond tariff reduction to include industrial corridor development and skill enhancement programs (Kumar, 2014). Similarly, the India–UAE CEPA incorporates provisions for digital trade, services, and investment facilitation, thereby reflecting a more comprehensive approach to economic integration (Chaturvedi, 2022).

Critics, however, caution that such broad-based partnerships may dilute trade liberalization objectives or create asymmetrical dependencies (Panagariya, 2002). Nonetheless, the prevailing trend suggests that strategic economic partnerships are increasingly essential complements to FTAs, particularly for emerging economies seeking to balance growth, security, and competitiveness in a multipolar world.

The literature demonstrates that tariff reduction alone no longer suffices to ensure export efficiency. Non-tariff barriers, institutional quality, and strategic complementarities play decisive roles in shaping trade outcomes. While FTAs remain important vehicles of trade liberalization, their effectiveness is contingent on domestic institutions and broader strategic frameworks that embed cooperation in investment, standards, and technology. This underscores the need for a more integrated theoretical approach to understanding the future of trade governance.

4. Theoretical Framework

This study adopts a **theoretical and conceptual methodology** rather than an empirical dataset-based analysis. The approach is grounded in the synthesis of established trade theories—classical, new trade theory, strategic trade theory—and insights from the new institutional economics. The purpose is to build a conceptual framework that explains how Free Trade Agreements (FTAs) and strategic economic partnerships reduce trade barriers and enhance export efficiency, while also highlighting the limitations posed by institutional quality and non-tariff barriers (NTBs).

4.1. Gravity Model of Trade

The gravity model has long been a dominant framework for analyzing bilateral trade flows (Tinbergen, 1962; Anderson, 1979). It posits that trade between two countries is positively related to their economic size and negatively related to distance or trade costs. In the context of FTAs, tariff reductions and NTB harmonization lower effective trade costs, thereby increasing trade flows (Baier & Bergstrand, 2007). Though this article does not conduct an empirical gravity

analysis, it uses the model conceptually to illustrate why FTAs that address both tariffs and NTBs are expected to yield higher trade volumes.

4.2. Strategic Trade Theory

Strategic trade theory (Brander & Spencer, 1985) highlights that governments can influence trade outcomes by supporting domestic industries in imperfectly competitive markets. This theoretical lens is useful for understanding strategic partnerships, which often go beyond tariff elimination to include cooperation in technology, investment, and infrastructure. Such provisions reflect deliberate state intervention to build long-term competitiveness, aligning with the insights of strategic trade theory.

4.3. New Institutional Economics

Institutions play a critical role in determining the effectiveness of trade agreements. North (1990) and Rodrik (2008) argue that institutional quality—encompassing regulatory transparency, contract enforcement, and administrative efficiency—shapes the actual utilization of FTA provisions. Even where tariffs are reduced, weak institutions may lead to underutilization of preferences, especially in developing economies. Thus, institutional economics provides a framework to analyze why some FTAs deliver substantial export efficiency gains, while others remain underperforming.

5. India's perspective towards FTAs and case studies:

This section applies the integrated theoretical framework—gravity theory, strategic trade theory, and institutional economics—to India's experiences with Free Trade Agreements (FTAs) and strategic partnerships. The discussion highlights four case studies: the India–ASEAN FTA, the South Asian Free Trade Area (SAFTA), the India–Japan Comprehensive Economic Partnership Agreement (CEPA), and the India–UAE CEPA. These cases illustrate how tariff reductions, non-tariff barriers (NTBs), institutional capacity, and strategic complementarities shape trade outcomes.

5.1. Tariff Reductions and Export Expansion: The ASEAN Experience

The India–ASEAN FTA, signed in 2009 and operational from 2010, represents one of India's most ambitious regional trade liberalization efforts. Under the agreement, India committed to reducing tariffs on over 80% of traded goods, with significant liberalization in manufacturing, chemicals, and agriculture. The gravity model predicts that such tariff reductions, combined with ASEAN's large and growing economies, should enhance bilateral trade flows.

Indeed, bilateral trade between India and ASEAN rose from USD 44 billion in 2009–10 to over USD 81 billion in 2017–18 (RIS, 2019). This expansion aligns with Baier and Bergstrand's (2007) findings that FTAs significantly raise trade volumes by lowering trade costs. However, the benefits have been uneven. While sectors like chemicals, engineering goods, and electronics benefited, India's farmers voiced concerns about import surges in palm oil, coffee, and pepper, leading to political resistance and demands for safeguard measures.

This reflects a theoretical tension: classical trade theory predicts overall welfare gains, but distributional impacts across sectors create domestic challenges (Krugman & Obstfeld, 2009). Thus, while tariff liberalization under ASEAN has fostered export efficiency in selected sectors, it has also generated adjustment costs in others, highlighting the need for complementary domestic policies.

5.2. Non-Tariff Barriers: SAFTA and the Challenge of Standards

The South Asian Free Trade Area (SAFTA), operational since 2006, illustrates the persistent obstacle of NTBs. While member states, including India, reduced tariffs on a large share of goods, trade integration remained shallow. Intra-regional trade among SAARC countries has hovered at just 5% of total trade, compared to ASEAN's intra-regional share of 25% (World Bank, 2018).

The primary reason lies in NTBs and restrictive rules of origin. For example, agricultural exporters from Bangladesh and Sri Lanka often face cumbersome sanitary and phytosanitary (SPS) checks at Indian ports, delaying shipments despite

tariff concessions (De, 2017). Similarly, conformity assessment procedures require exporters to undergo duplicative testing, raising costs and discouraging utilization of preferences.

From a theoretical perspective, the persistence of NTBs contradicts the gravity model's predictions of trade expansion under lower tariffs. Instead, institutional economics provides a better explanation: weak harmonization of standards, inadequate customs coordination, and lack of mutual recognition agreements undermine the effectiveness of SAFTA (North, 1990; Rodrik, 2008). Recent research suggest that mutual recognition of standards within SAFTA could raise welfare across South Asia by reducing transaction costs and unlocking unrealized trade potential (ScienceDirect, 2024). Thus, SAFTA demonstrates that tariff liberalization alone is insufficient; addressing NTBs through institutional reforms is central to realizing export efficiency.

5.3. Institutional Quality and Export Efficiency: Underutilization of Preferences

A recurring challenge in India's FTAs is the underutilization of tariff preferences. Studies show that Indian exporters frequently fail to claim preferential tariffs under ASEAN and SAFTA because of complex documentation, lack of awareness, or inability to comply with rules of origin (Kaushal, 2021). As a result, actual trade flows often fall below potential, even when tariff concessions are available.

This gap highlights the importance of institutional quality, Levchenko (2007) argues that countries with stronger institutions trade more in contract-intensive goods, a finding particularly relevant for India's pharmaceuticals, IT services, and engineering sectors.

In India's case, the lack of streamlined procedures and weak information dissemination prevents firms, especially small and medium enterprises (SMEs), from leveraging FTAs. Thus, export efficiency is constrained not by the absence of tariff concessions but by institutional barriers, reinforcing Rodrik's (2008) claim that "institutions matter more than geography" in explaining trade performance.

5.4. Strategic Partnerships: Japan and UAE as Complementary Models

While tariff-focused FTAs face limitations, India's strategic economic partnerships illustrate a broader approach.

a. India–Japan CEPA (2011): The India–Japan CEPA not only reduced tariffs on over 90% of traded goods but also incorporated provisions for investment, technology cooperation, and skill development. Japan's support for the Delhi–Mumbai Industrial Corridor (DMIC) exemplifies how strategic partnerships extend beyond trade to foster infrastructure and industrial competitiveness (Kumar, 2014). From a strategic trade theory perspective, such initiatives reflect deliberate state-led efforts to enhance competitiveness in capital-intensive sectors like automobiles and electronics (Brander & Spencer, 1985).

b. India–UAE CEPA (2022): More recently, the India–UAE CEPA highlights the trend toward comprehensive agreements. Beyond goods, the CEPA includes provisions on digital trade, services, and investment facilitation (Chaturvedi, 2022). The UAE's role as a logistics hub aligns with India's strategic goal of integrating into global value chains, particularly in textiles, gems, and IT services. Such partnerships embody Aggarwal and Fogarty's (2004) argument that strategic economic partnerships act as institutional platforms for multi-dimensional cooperation.

These cases suggest that strategic partnerships complement FTAs by addressing structural barriers to competitiveness—through technology, finance, and infrastructure—that tariff liberalization alone cannot resolve.

5.5. Asymmetry and Distribution of Gains

Another key finding is the asymmetry in gains from FTAs and partnerships. Developed partners often reap greater benefits due to stronger institutions, diversified export baskets, and advanced regulatory frameworks. Panagariya (2002) argues that developing countries may face adjustment costs or lose policy space in such agreements. India's exit from the Regional Comprehensive Economic Partnership (RCEP) in 2019 reflects such concerns, particularly fears of import surges from China undermining domestic manufacturing. This aligns with strategic trade theory, which cautions that free trade may not always maximize national welfare if domestic industries face asymmetric competition (Brander & Spencer, 1985).

For India, strategic partnerships provide a middle path: engaging in trade liberalization while retaining flexibility to safeguard vulnerable sectors

6. Discussion:

This analysis reveals that trade liberalisation, institutional capacity, and strategic relationships complexly affect India's FTAs. This data can inform scholarly debate and policymaking through theoretical interpretation. The India–ASEAN FTA expands trade, supporting the gravity model, which predicts flows based on economic size and distance. Tariff reductions enhanced bilateral trade, validating Baier and Bergstrand's (2007) claim that FTAs increase trade. The gravity model's benefit distribution flaws are shown by sectoral gains, where some industries grew while others faced import competition. Related to policy disputes regarding compensating harmed sectors. Second, SAFTA's limited success shows tariff liberalisation cannot replace NTBs. Institutional economics explains. North (1990) and Rodrik (2008) argue that institutions are vital to economic outcomes, and India's rules of origin, conformity assessment, and customs concerns reflect this. International commerce of complex goods is affected by institutional quality, according to Levchenko (2007). Weak institutional coordination hampered trade. Third, underused FTAs demonstrate institutional quality and export efficiency. This discovery theoretically agrees with trade model predictions and results. Administrative and informational barriers prevent SMEs from receiving preferred access. This raises capacity-building, customs digitisation, and exporter support policy issues. Finally, strategic trade theory supports gravity-based forecasts in the India–Japan and India–UAE CEPAs. According to Brander and Spencer (1985), these accords demonstrate how state intervention can increase national competitiveness through infrastructure cooperation, knowledge transfer, and digital trade facilitation. To better reflect 21st-century trade realities, they suggest switching from tariff-focused FTAs to strategic economic partnerships. The findings feed India's trade strategy debate: tariff-focused FTAs, strategic partnerships, or institutional reforms? FTAs increase trade but work better with NTB reduction and institutional development. Strategic relationships strengthen India's integration into global value chains.

7. Conclusion:

This study has shown that Free Trade Agreements (FTAs) and strategic economic partnerships play an important role in reducing trade barriers, but their effectiveness depends on more than tariff liberalization. Theoretical insights from the gravity model, strategic trade theory, and institutional economics suggest that while FTAs can increase trade volumes, their real impact hinges on addressing non-tariff barriers (NTBs), strengthening institutions, and fostering broader cooperation. India's mixed outcomes across ASEAN, SAFTA, Japan, and UAE illustrate that tariff concessions alone are insufficient; trade efficiency requires transparent customs, harmonized standards, and robust dispute resolution. From a policy perspective, India should move beyond tariff-focused agreements toward **strategic partnerships** that integrate trade with investment, technology, and infrastructure cooperation. Simultaneously, domestic reforms—digitalization of trade procedures, SME support, and institutional strengthening—are critical to unlocking the full benefits of FTAs. Future negotiations must therefore balance liberalization with strategic, institution-focused reforms.

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