

Regional Trade Agreements in Asia and India: An Imperative Study



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Abstract

Regional trade agreements have been a chief and repeated feature of the universe during the last half century. When trade liberalization occurs typically on a regional basis, then it is known as Regional Trade Agreement. 'Under this system, member nations agree to impose lower barriers to trade within the group, than to trade with non-member nations. The first wave of the regional integration was occurred after the formation of European Economic Community (EEC) that was established in 1957. 'And the second wave of regionalism or 'new regionalism' was arisen during mid-1990s; a substantial increase in the numbers of the RTAs entered into force has been recognized in this year' (Jha, 2011). Since RTAs have become an imperative phenomenon of international trade, this study presents the trend of RTAs in Asia and in India after; the second wave of regionalism and the study also illustrates the reasons behind this upsurge in number of RTAs in world. This study presents the theoretical aspect of trend of regional trade agreements embraced by different countries of world and India during last 20 years, which is based on the data collected from WTO RTA database and Ministry of commerce, Government of India etc. The study found that during last decades major Asian economies along with India have followed the trend of forming Regional Trade Agreements with the orientation of trade agreements rather than socio-political agreements.

Keywords: Regional Trade Agreements, International, Regional integration, EEC, Trade Liberalization.

JEL Classification

F0, F1, F5

Introduction

Regional trade agreements have been a chief and repeated feature of the universe during the last half century. When trade liberalization occurs typically on a regional basis, then it is known as Regional Trade Agreement. 'Under this system, member nations agree to impose lower barriers to trade within the group, than to trade with non-member nations. Each member nation remains continuous to decide its domestic policies, but the trade policy of each contains preferential treatment for group members' (Francis, 2011). This form of economic incorporation or geo- graphical tariff discrimination is intended at nurturing the welfare of member nations. "The RTAs reintroduce free trade among member nations but imposes trade restriction on non- member countries of the world; therefore Regional Trade Agreement is a synthesis of the policies of free trade and restricted trade'(Lynch, 2010).

Review of Literature

The first wave of the regional integration was occurred after the formation of European Economic Community (EEC) that was established in 1957. And the second wave of regionalism or 'new regionalism' was arisen during mid-1990s; a substantial increase in the numbers of the RTAs entered into force has been recognized in this year' (Jha, 2011). Nearly all of the WTO's Members have notified membership in one or more RTAs even some members are party to twenty or more RTAs. In the period 1948 to 1994, the GATT received 124 notifications of RTAs (relating to trade in goods), and since the creation of the WTO in 1995, over 400 additional arrangements covering trade in goods or services have been notified. Regional trade agreements (RTAs) have become increasingly prevalent since the early 1990s. "As of 8 January 2015, some 604 notifications of RTAs (counting goods, services and accessions separately) had been received by the GATT/WTO" (WTO, 2016). Asian region has also tracked this new wave of regionalism in world, and there has been abrupt upsurge in number of RTAs in Asia, Asian RTAs are diverse from other RTAs, in a

number of distinctive aspects, as Asian RTAs are tend to be less formalized and less institutionalized than RTAs in other regions. "Asian RTAs follow economic integration more than leading it, again compared with other RTAs" (Scolly, 2006).

In Asian RTAs trade co-operation has been found in more cases than monetary cooperation, as a main objective behind formation of that RTA. After formation of Association of South East Asian Nations (ASEAN), major changes have been occurred in trend of regional integration in Asia. "During last 15 years, ASEAN emerged as a central point for the formation of regional trade agreements in Asia" (Ellis, 2014). Almost all major economies of Asia have formed regional trade agreement with ASEAN, Asian countries are moving towards regionalism and "ASEAN became a pivotal point for this economic integration" (Fox, 2004). Major Asian countries like China, Korea, Japan, Australia and New Zealand all have successfully formed various types of regional trade agreement with ASEAN. India also signed the Framework Agreement on Comprehensive Economic Cooperation (CECA) with ASEAN at the second ASEAN- India summit in 2003. Since RTAs have become an imperative phenomenon of international trade, this study presents the trend of RTAs in Asia and in India after; the second wave of regionalism and the study also illustrates the reasons behind this upsurge in number of RTAs in world. The study found that during last decades major Asian economies along with India have followed the trend of forming Regional Trade Agreements with the orientation of trade agreements rather than a socio-political agreement. Review of issues related with Regional trade Agreements of India

In his study Dasgupta. (2012), had tried to present the importance of regional trade integration in present time. First, he had presented that there was found a surge in the regional trade agreements since 1990s. The figures and tables clearly indicated that the number of regional trade agreements had been increased. Secondly, the author had presented the RTA's and India's standpoint, he found that India had signed and implemented many RTAs in the past decade and India had been concentrating on signing many more RTAs in the near future. Kohpaiboon, et.al. (2011), have mentioned in their book that how international production networks (IPNs) were affected by the formation of regional trade agreements in Asia. The analysis focused on the effect of the trade liberalization aspect of the RTAs in promoting the development of production networks in Asia. In this study primary data had been collected for analysis and along with it many examples and case studies of business practices were brought into the discussion. The study suggested that the international production networks in Asia were mainly driven by market initiatives, and formal trade agreements had potential to foster their development. In addition Jha. (2011), had formulated this study in the context of the Indian experience in regionalism. This paper revealed that during the past decade, India's trade policy had seen a marked shift towards regionalization with the signing of many

RTAs. This paper explored the utility of Regional Trade Agreements for Indian traders. To found the usefulness to the traders, the author had first compared the aggregate trade trends with trade in trends of preferential items for each RTAs, the gap between the two gives an idea of extent of importance of preferences in trading with RTA partners. Next a primary survey of certifying agencies undertaken to find out the level of utilization of preferential schemes by Indian exporters was reviewed. The results showed that after RTAs came into effect; both exports and imports from the RTA partner country were increased significantly. An interesting contrast was found in this result that, while imports were the driving force behind the substantial increase in total imports from RTA partners. Therefore RTAs could not be greatly beneficial for Indian exporters.

Objective, Methodology and Data Sources

The study illustrates the inclination of regionalism in world and specially focused on India. This study presents the theoretical aspect of trend of regional trade agreements embraced by different countries of world and India during last 20 years, which is based on the data collected from WTO RTA database and Ministry of commerce, Government of India etc. The study also reconnoiters the reasons behind the recent surge of formation of regional trade agreements in world trade.

Regional Trade Agreements

When a group of countries eliminates (artificial) barriers to international trade and competition on a regional than a global scale, then it is known as Regional economic integration. In the WTO context, regional trade agreements (RTAs) have both a more general and more specific meanings: it is more general, because RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; and it is more specific, because the WTO provisions which relate specifically to conditions of preferential trade liberalization with RTAs. "Regional trade agreements have become increasingly popular since the Second World War and it has also become the preferred approach to trade liberalization during the last fifteen years" (Pal, (2004).

Types of Regional Trade Agreements

The exposure and depth of preferential treatment varies from one RTA to another. There are five types of RTAs-

Preferential Trade Agreement (PTA)

In PTAs, two or more countries form a trading club or a union and reduce tariffs on imports of each other, i.e. they exchange tariffs preferences and concessions. The member countries maintain their individual tariffs against the outside world. A good example of such PTA is the commonwealth preference system headed by the United Kingdom.

Free Trade Area (FTA)

When two or more countries come together and abolish all tariff duties on their individual tariffs against the rest of the world, we have a free trade association or area. ASEAN-India FTA is an example of such FTA.

Customs Union

When two or more countries abolish all tariff duties among themselves and adopt a common external tariff barrier against the imports of all goods coming from the rest of the world, it forms a Custom union. An example is provided by the European Economic Community (EEC).

Common Market

In this case the member countries allow not only for the free movement of goods and services, but also for the free movement of factors of production, such as capital and labour. An example is provided by the European Union (EU).

Economic Union

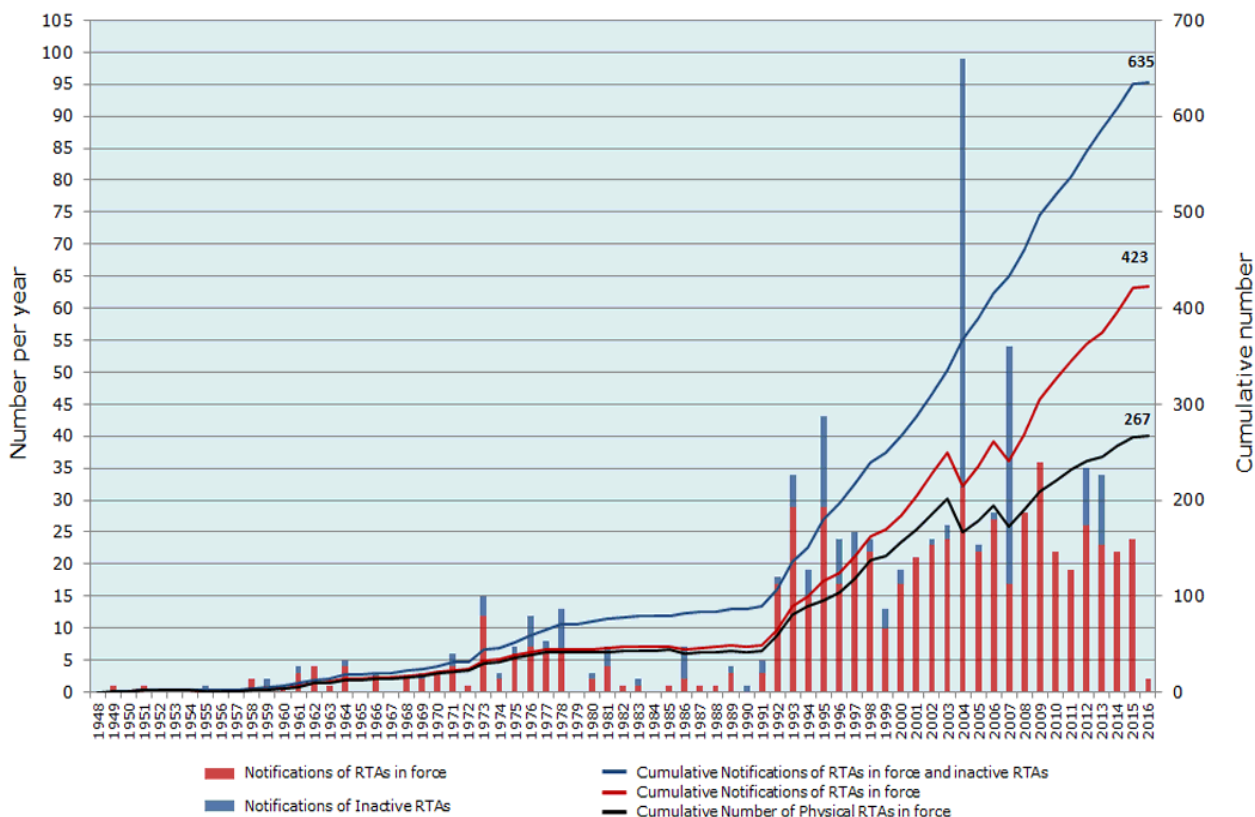
The highest stage of economic integration is reached when countries form an economic union. An extension of the common/ internal market is an economic union, in which case there is also harmonization of the institutional framework, regarding competition policy, procurement, etc. An example is provided by the EU's Economic and Monetary Union (EMU).

Trend of RTAs in world

The members of World Trade Organization are bound to notify the Regional Trade Agreements (RTAs) in which they participate. It has been found that nearly all of the WTO's Members have notified membership in one or more RTAs even some

members are party to twenty or more RTAs. In the period 1948- 1994, the GATT received 124 notifications of RTAs (relating to trade in goods), and since the creation of the WTO in 1995, over 400 additional arrangements covering trade in goods or services have been notified. According to WTO, since 1990s the Regional trade agreements (RTAs) have become increasingly prevalent. As of 8 January 2015, some 604 notifications of RTAs (including goods, services and accessions separately) had been received by the GATT/WTO. Of these, 398 were in force. These WTO figures correspond to 446 physical RTAs (comprising goods, services and accessions together), of which 259 are currently in force. Many WTO Members continued to be involved in new RTA negotiations. Approximately among all agreements in force, most new negotiations are bilateral. "However a recent development has been perceived in negotiations among several WTO members" (Martyn, 2001), this new development comprises negotiations in the Asia Pacific Region for a Trans Pacific Partnership (TPP) Agreement, which is currently between 12 parties; and another is in Asia between ASEAN members and six other WTO Members with which ASEAN has agreements in force (the Regional Comprehensive Partnership Agreement, RCEP) etc

Graph 1 Evolution of RTAs in the world, 1948- 2016
Evolution of Regional Trade Agreements in the world, 1948-2016



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs that were in force for a given year.

Source: WTO Secretariat.

Source: WTO secretariat.

Table 1. RTAs in force in 2016 in world

| | Accessions | New RTAs | Grand Total |
|----------------------|------------|----------|-------------|
| GATT Art. XXIV (FTA) | 2 | 219 | 221 |
| GATT Art. XXIV (CU) | 9 | 11 | 20 |
| Enabling Clause | 2 | 39 | 41 |
| GATS Art. V | 6 | 135 | 141 |
| Grand Total | 19 | 404 | 423 |

Source: WTO secretariat.

Here the given table demonstrates the RTAs in force on the basis of their notification in WTO's rule for regional trade agreements, as we have seen earlier that there are mainly three sets of rules for RTAs, they are paragraph 4 to 10 of Art. XXIV of GATT, Enabling Clause and Art. V of GATS, The given graph shows that the maximum numbers of RTAs notified come under WTO's rule of GATT Art. XXIV (FTA) after that 141 RTAs notified under WTO's rule of GATS Art. V and 41 RTAs have been notified under Enabling Clause of WTO's rules.

Trend of Regional Trade Agreements in Asia

The number of Regional Trade Agreements (RTAs) in Asia has risen over the past decade. The proliferation of such RTAs highlights an important and perhaps strategic policy trend in the region. As compared to the multilateral trade liberalization under the WTO, RTAs can potentially achieve deeper integration by promoting regulatory cooperation and wider convergence among contracting parties. Moreover, while multilateral trade liberalization generally permits market access for the most competitive suppliers, RTAs may also offer additional benefits for less competitive exporters through a multiplier effect of reduction/elimination of tariff barriers and significant reduction of non-tariff barriers (NTBs).

Though the number of RTAs in Asia has also risen with the passage of time, but Asian RTAs are different from other RTAs of the world, in a number of distinctive aspects, as Asian RTAs tend to be less formalized and less institutionalized than RTAs in other regions. Asian RTAs follow economic integration more than leading it, again compared with other RTAs. In Asian RTAs trade cooperation has been found in more cases than monetary cooperation, and trade cooperation is established as a main objective behind formation of that RTA. After formation of Association of South East Asian Nations (ASEAN), major changes have been ensued in tendency of regional integration in Asia. ASEAN is a geo-political and economic organization of ten countries located in Southeast Asia. As ASEAN is a vibrant and growing market size of over half a billion people, which is larger than the market size of the United States or Europe and ASEAN is one of the fastest growing regions in the world. During last 15 years, ASEAN has arisen as a vital point for the formation of regional trade agreements in Asia. In present time almost all the major countries of Asia like China, Japan, Australia, South Korea, and India etc. have formed

regional trade agreement with ASEAN. Here the given table presents the list of major FTAs, which are in effect in Asian region.

Table 2. Major FTAs in Effect in the Asian region

| FTAs | Date in Effect |
|---|-----------------|
| Australia New Zealand | January, 1983 |
| Laos Thailand | June, 1991 |
| AFTA | January, 1992 |
| Singapore New Zealand | January, 2001 |
| Japan Singapore | November, 2002 |
| Singapore Australia | July, 2003 |
| ASEAN China | January, 2004 |
| Thailand India | September, 2004 |
| Thailand Australia | January, 2005 |
| Thailand New Zealand | July, 2005 |
| Singapore India | August, 2005 |
| Singapore South Korea | March, 2006 |
| Trans Pacific Strategic Economic Partnership Agreement (P4) | May, 2006 |
| Japan Malaysia | July, 2006 |
| ASEAN South Korea | June, 2007 |
| Japan Thailand | November, 2007 |
| Japan Indonesia | July, 2008 |
| Japan Brunei | July, 2008 |
| China New Zealand | October, 2008 |
| ASEAN Japan | December, 2008 |
| Japan Philippines | December, 2008 |
| Singapore China | January, 2009 |
| Japan Vietnam | October, 2009 |
| ASEAN Australia New Zealand | January, 2010 |
| ASEAN India | January, 2010 |
| South Korea India | January, 2010 |
| Malaysia New Zealand | August, 2010 |
| Hong Kong NZ | January, 2011 |
| Malaysia India | July, 2011 |
| Japan India | August, 2011 |

Source : WTO secretariat

Trend of Regional Trade Agreements in India-

Trade agreements of a country are known as any contractual measures with other state or states regarding their trade relationship. Trade agreements can be bilateral or multilateral i.e. it can be between two states or it can be between more than two states or countries. Trade agreements are used for diminishing trade barriers and increasing trade. India views Regional Trading Arrangements (RTA's) as constructive blocks towards the overall purpose of trade liberalization. Therefore, it is participating in a number of RTA's which include Free Trade Agreements (FTA's); Preferential Trade Agreements (PTA's); Comprehensive Economic Cooperation Agreements (CECA's); etc. These agreements are

pierced into either bilaterally or in a regional grouping. In the past decade India's trade policy has seen a noticeable alteration towards regionalism, with signing of numerous RTAs.

The first RTA entered into India was in 1975, when the government signed the Bangkok Agreement. It started as a regional initiative between developing countries of Asia Pacific region, but was very limited in its scope, so in 2005 it was reincarnated as the Asian Pacific Trade Agreement (APTA), and trade liberalization started in a meaningful way between its members. One of the big RTA of India, South Asian Association for Regional

Co-operation (SAARC) was formed in 1985. And members of the South Asian Association for regional co-operation formed a (PTA) SAPTA, in 1995, which was another regional initiative between the nations of South Asia under the ambit of SAARC. It was upgraded to a FTA as SAFTA in 2006. India's first bilateral FTA was with Sri- Lanka, the India- Sri Lanka Free Trade Agreement (ISFTA). It came into effect in March 2000. Subsequently since 1991 many other RTAs were signed, the given table demonstrates the list of India's notified RTAs in force. This list is also presenting a brief idea about India's notified RTAs.

Table 3- List of India's Notified RTAs in force

| RTAs Name | Coverage | Status | Date of Signature | Date of entry into force |
|--|------------------|----------|------------------------------------|------------------------------------|
| South Asian Preferential Trade Arrangement (SAPTA) | Goods | In Force | 11 Apr 1993 | 07 Dec 1995 |
| South Asian Free Trade Agreement (SAFTA) Accession of Afghanistan | Goods | In Force | 03 Aug 2008 | 07 Aug 2011 |
| South Asian Free Trade Agreement (SAFTA) | Goods | In Force | 06 Jan 2004 | 01 Jan 2006 |
| MERCOSUR India | Goods | In Force | 25 Jan 2004 | 01 Jun 2009 |
| Korea, Republic of India | Goods & Services | In Force | 07 Aug 2009 | 01 Jan 2010 |
| India Sri Lanka | Goods | In Force | 28 Dec 1998 | 15 Dec 2001 |
| India Singapore | Goods & Services | In Force | 29 Jun 2005 | 01 Aug 2005 |
| India Nepal | Goods | In Force | 27 Oct 2009 | 27 Oct 2009 |
| India Malaysia | Goods & Services | In Force | 18 Feb 2011 | 01 Jul 2011 |
| India Japan | Goods & Services | In Force | 16 Feb 2011 | 01 Aug 2011 |
| India Bhutan | Goods | In Force | 28 Jul 2006 | 29 Jul 2006 |
| India Afghanistan | Goods | In Force | 06 Mar 2003 | 13 May 2003 |
| Global System of Trade Preferences among Developing Countries (GSTP) | Goods | In Force | 13 Apr 1988 | 19 Apr 1989 |
| Chile India | Goods | In Force | 08 Mar 2006 | 17 Aug 2007 |
| Asia Pacific Trade Agreement (APTA) Accession of China | Goods | In Force | 12 Apr 2001 | 01 Jan 2002 |
| Asia Pacific Trade Agreement **(APTA) | Goods | In Force | 31 Jul 1975 | 17 Jun 1976 |
| ASEAN – India FTA*** | Goods & Services | In Force | 13 Aug 2009 (G) 13 Nov 2014 (S) | 01 Jan 2010 (G) 01 Jul 2015 (S) |

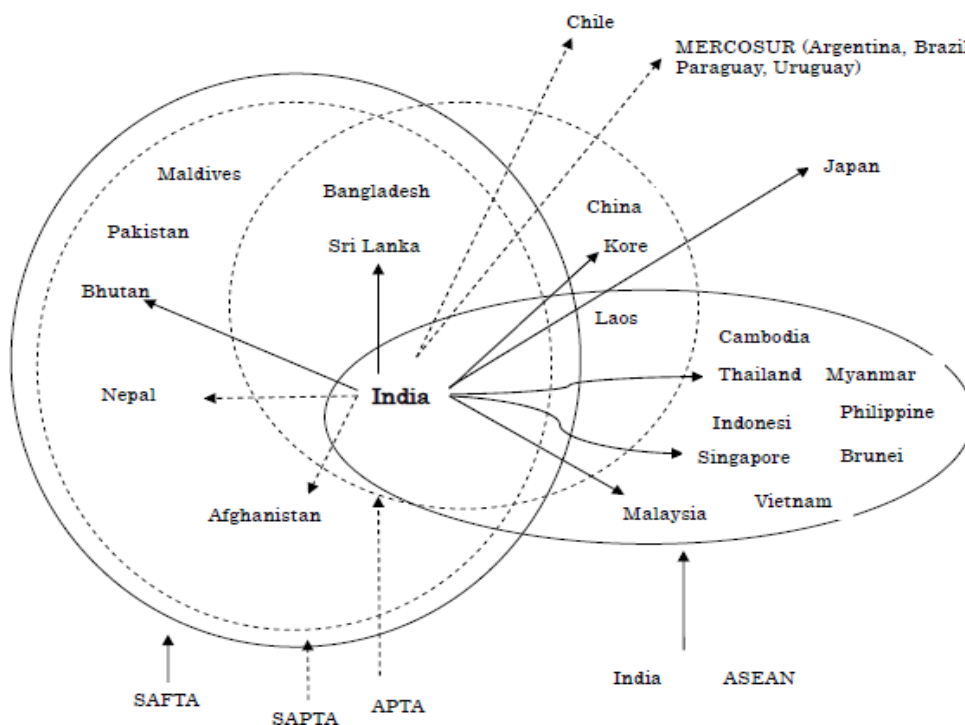
Source: WTO, RTA database, www.wto.in

Algeria; Argentina; Bangladesh; Benin; Bolivia, Plurinational State of; Brazil; Cameroon; Chile; Colombia; Cuba; Ecuador; Egypt; Ghana; Guinea; Guyana; India; Indonesia; Iran; Iraq; Korea, Democratic People's Republic of; Korea, Republic of; Libya; Malaysia; Mexico; Morocco; Mozambique; Myanmar; Nicaragua; Nigeria; Pakistan; Peru; Philippines; Singapore; Sri Lanka; Sudan; Tanzania; Thailand; Trinidad and Tobago; Tunisia; Venezuela, Bolivarian Republic of; Viet Nam; Zimbabwe

**Formally known as "Bangkok Agreement". Entry into force of the amended Agreement: 01 sept 06

***Dates of entry into Force: Framework Agreement: 1 July 2004 TIG Agreement: India, Malaysia, Singapore and Thailand: 1 January 2010 Brunei Darussalam, Myanmar and Viet Nam: 1 June 2010 Indonesia: 1 October 2010 Lao PDR: 1 January 2011 The Philippines: 17 May 2011 Cambodia: 15 July 2011

Graph – 3 Overlapping Indian PTAs in force



Source: JETRO, (2008). „South-South Trade in Asia: the Role of Regional Trade Agreements”, A report by UN Publications. The recently signed ASEAN- India FTA is in operation since January 2010 has been considered a landmark agreement for India has achieved an important milestone in pursuance of its objective to expand its economic and political relations with neighboring nations. ASEAN consists of ten countries namely Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The ASEAN –India FTA (AIFTA) is considered a major step of India into the formidable regional trade block of south Asia. The agreement will be beneficial for both, as the increased market access would result in doubling of the bilateral trade. The agreement opens up the \$ 1.1 trillion ASEAN market to Indian exporters, it has been hoped that it will cut back the dependence of Indian exporters on the western countries.

Reasons behind the new wave of Regionalism

As we have analyzed in this study that there is tremendous increase in the number of regional trade agreements after 1991. This upsurge in RTAs is known as the second wave of regionalism after the first wave of regionalism in 1967. The major reasons behind this second wave of regionalism have been discussed here-

To Increase Market Access

Greater access to the foreign markets is perhaps the most typical reason for entering into an RTA. Because of Lower tariff barriers the countries easily get market access in member countries.

To Promote Investment

RTAs can increase investment by including specific investment designs, so that foreign investors feel secure, as RTAs can increase investment by

applying equal treatment between foreign and domestic investors, and by simplifying the process regarding investment disputes, and by reducing bureaucratic hurdles.

To Increase Competitiveness in World Markets

In other words RTAs may enhance companies, ability to “source globally, produce regionally and sell locally”. As example China is highly interested in achieving committed sources of inputs for its large industrial production boom, and regional trade agreements of China are supporting this goal.

To Protect Against Unfair Use of Trade Remedies

One reason for forming RTAs is to shield against unfair use of trade remedies such as antidumping measures, countervailing duties and safeguards. For example, when President George W. Bush announced safeguard tariffs of up to 30 percent against steel imports in 2002, he exempted 80 developing countries and Canada and Mexico also exempted from this, who were partners with US in NAFTA. So that Brazilian steel, for example faced US safeguards while Mexican and Canadian steel did not. This shows that RTAs can shield against questionable use of trade remedies.

To Guard against Slowed Multilateral Liberalization

The slow progress of WTO and difficulty in taking decisions under multilateralism are the key reasons behind the prominent development in number of regional trade agreements in world.

To Intensify Power in International Negotiations

When the RTA is sufficiently integrated and solid, the member countries in an RTA can have more power in international negotiations than the countries would have separately. However, the poorer countries cannot send permanent representatives to the

secretariats of important multilateral organizations such as the WTO or the some other important negotiations, an RTA can help countries' power by creating institutions or in other negotiations.

Conclusion

After 1991 the proliferations of regional trade agreements have seen tremendous increase because of new wave of regionalism. This modern wave of regionalism is less discriminatory in trading with non-members, it covers more economic sectors, and it also address trade barriers beyond tariffs. As of 8 January 2015, some 604 notifications of RTAs (including goods, services and accessions separately) had been received by the GATT/WTO. In present time almost all the major countries of Asia like China, Japan, Australia, South Korea, and India etc. have formed regional trade agreements. There have been several reasons, which can be defined for these striking developments in formation of RTAs. The slow progress of WTO and difficulty in taking decisions under multilateralism are the key reasons behind the prominent development in number of regional trade agreements in world. The main reasons behind the increasing numbers of RTAs are to increase market access and investment, to enhance their power in world.

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