



Multilateral and Regional Trade Agreements: An Indian Perspective

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ABSTRACT

The study has been undertaken to assess the impact of various multilateral and regional trade agreements of India with other foreign countries on the India's trade. The major objective was to analyze the impact on India's foreign trade for the last few years. For this purpose secondary data were collected from various sources. Foreign trade data of India with major trade partners for the last 5 years .i.e. from 2007-2012 were taken to analyze the facts. The paper verified that there has been a significant impact on India's trade due to agreements. The finding of the study also reveals some of the future scope of such agreements on India's foreign trade.

Keywords : Multilateral & Regional trade agreements, WTO, GATT, Foreign trade, Economic

Introduction:

A multilateral trade agreement involves three or more countries who wish to regulate trade between the nations without discrimination. They are usually intended to lower trade barriers between participating countries and, as a consequence, increase the degree of economic integration between the participants. Multilateral trade agreements are considered the most effective way of liberalizing trade in an interdependent global economy.

Although multilateral trade existed earlier, it was only after World War II that nations recognized the need for a set of rules with the objective of securing market access for post-war recovering economies. The first such set of rules came in 1947 in the form of the General Agreement on Tariffs and Trade (GATT). GATT was replaced in 1995 by the World Trade Organization, which has more than 150 members. The WTO agreements cover goods, services and intellectual property.

Recently, there has been a surge in regional trade agreements involving a relatively small number of countries. Contrary to what the name suggests, these agreements may be concluded between countries in different geographical regions. Examples of regional trade agreements include the North American Free Trade Agreement (NAFTA), which has substantially reduced trade barriers for agricultural commodities, manufactured goods, and services in North America.

OBJECTIVE:

The main objective of this paper is to analyze the effects of Multilateral and regional trade agreements of India with other foreign countries on the India's trade. The main focus is on the effects of the agreements on India's foreign trade i.e. exports as well as import. For this purpose we have taken secondary data for the latest last 5 years (2007-2012).

REVIEW OF LITERATURE:

Deepening of regional integration and multilateral trade agreements, L. Alan Winters (April 2001) states that a three-country, two-bloc, multi-product trade model in which tariff agreements between customs union members are binding

whereas inter-bloc tariff agreements are self-enforcing. Objective of this paper is to explore how the liberalization of trade between customs union members (i.e. the deepening of regional integration) affects the sustainability of tariff agreements with the rest of the world (ROW).

Returns to Regionalism: An Analysis of Nontraditional Gains from Regional Trade Agreements, Raquel Fernández and Jonathan Portes ,

This article examines several possible benefits that regional trade agreements may confer on their partners, including credibility, signaling, bargaining power, insurance, and coordination.

Revisiting the effects of regional trade agreements on trade flows with proper specification of the gravity model, Clermont-Ferrand, 28 October 2004. States that gravity model to assess ex-post regional trade agreements. The model includes 130 countries and is estimated with panel data over the period 1962–1996. The introduction of the correct number of dummy variables allows for identification of Vinerian trade creation and trade diversion effects, while the estimation method takes into account the unobservable characteristics of each pairs of trade partner countries, the endogeneity of some of the explanatory variables as well as a potential selection bias.

China's New Regional Trade Agreements, Agata Antkiewicz, John Whalley, July 2001, This paper discusses the recent regional trade agreements that China has concluded rapidly following accession to the WTO in 2002. Agreements are in place with Hong Kong, Macao, ASEAN, Australia and New Zealand, and are either in negotiation or under discussion with South Africa, Chile, India and the Gulf Cooperation Council.

Regional trade agreements and the WTO, Jo-Ann Crawford and Sam Laird, 31 October 2000 States that the rapid growth in the number of regional trade agreements (RTAs) has led to concern about the weakening of the multilateral trading system. This paper looks at the spread of such agreements and the extent to which they pose a threat to the system.

Advantages

- Many liberal economists argue that free trade among nations leads to win-win outcomes for all. Economist David Ricardo states that welfare is maximized when each country specializes in producing goods that best use that nation's land, labor and capital, then trades its surplus for goods produced by other countries.

Disadvantages

- International trade takes place in a world of nation-states, without a global authority that can dictate and enforce the rules. Also, trade agreements never make everyone happy. Agreements that increase access to each member country's markets are supported by sectors that export their products but are opposed by sectors that face competition from imports.

INDIA-ASEAN Free Trade Agreement

The India-ASEAN Free Trade Agreement (FTA) was finally signed, on 13 August 2009 at Bangkok, after six years of negotiations, on the sidelines of a meeting of Economic Ministers of ASEAN.

The agreement was only for trade-in-goods and did not include software and information technology. Negotiations for agreements on services and investment sectors have commenced only in October 2008 and are expected to be completed by December 2009.

The FTA will be effective from January 1, 2010. The FTA would eliminate tariffs for about 4000 products (which include electronics, chemicals, machinery and textiles) out of which duties for 3200 products will be reduced by December 2013, while duties on the remaining 800 products will be brought down to zero or near zero levels by December 2016.

Anand Sharma, the Commerce and Industry Minister, who signed the agreement for India, remarked "This is a historic development, given rising engagement between India and ASEAN and the enhanced economic cooperation. This agreement will open new opportunities for multi-sectoral engagement".

The 489 items excluded from the list of tariff concessions and 590 items excluded from the list of tariff eliminations in the agreement pertain to farm products, automobiles, certain auto-parts, machinery, chemicals, crude and textile products. Tariff cuts in respect of some sensitive items like palm oil, tea, coffee and pepper will be graduated during a period of 10 years.

ASEAN is India's fourth-largest trading partner after the E.U., the United States and China. Two-way trade between India and ASEAN was \$ 47 billion in 2008. Both the parties to the FTA are expecting a \$10 billion increase in trade even in the first year.

Suparna Karmakar in the article "India-ASEAN FTA—Limited but Important Gains" in the Business Line (07 November 2008), writes that several research papers indicate that most regional trade agreements are politically motivated with very little economic gains and that this FTA is no exception. In order to reduce its dependence on the U.S. and E.U. markets, India is diversifying its trade destinations and in that way ASEAN is an important region. She adds that the agreement on Rules of Origin (ROO) is one of the most lenient that India has negotiated with her preferential trade partners and that significant gains are likely for India once the negotiations for service and investment are concluded.

Table 1
Department of Commerce
Export Import Data Bank
Region wise (Values in US \$ Millions)
ASEAN countries.

S. No.	Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
1.	EXPORT	10,411.30	12,607.43	16,413.52	19,140.63	18,113.71
2.	%Growth		21.09	30.19	16.62	-5.37
3.	India's Total Export	103,090.53	126,414.05	163,132.18	185,295.36	178,751.43
4.	%Growth		22.62	29.05	13.59	-3.53
5.	%Share	10.0992	9.9731	10.0615	10.3298	10.1335
6.	IMPORT	10,868.05	17,475.03	22,674.81	26,202.96	25,797.96
7.	%Growth		60.79	55.34	15.56	-1.55
8.	India's Total Import	149,165.73	185,735.24	251,654.01	303,696.31	288,372.88
9.	%Growth		24.52	35.49	20.68	-5.05
10.	%Share	10.0992	9.9731	9.0103	8.6280	8.9460
11.	TOTAL TRADE	21,279.35	30,082.36	39,088.33	45,343.59	43,911.67
12.	%Growth		41.56	29.93	16	-3.15
13.	India's Total Trade	252,256.26	312,149.29	414,786.19	488,991.67	467,124.31
14.	%Growth		23.74	32.88	17.89	-4.47
15.	%Share	8.43	9.63	9.42	9.27	9.40
16.	TRADE BALANCE					
17.	India's Trade Balance	-46,075.20	-59,321.19	-88,521.83	-118,400.95	-109.62

News Analyses

The FTA is part of the Framework Agreement on Comprehensive Economic Cooperation signed with ASEAN in 2003, which included goods, services and investments and is to be functional by 2016.

The FTA is significant for the reason that it is the first multilateral trade agreement entered into by India.

The main hurdle from the Indian side for this long delay of over 6 years was the big number (over 1400) items on its sensitive and negative list at the initial stages.

Despite concerns raised by the Indian industry and objections raised by some ASEAN countries like Indonesia and Malaysia, allaying their fears by some give and take and concluding an amicable agreement is an achievement, though inordinately delayed.

It is a major step in India's "Look East" policy in reducing its dependence on trade with U.S. and E.U. and turning towards South East Asia will strengthen its regional dynamics.

China has already an FTA with ASEAN, perhaps on more favourable terms. By this FTA, India, though not by way of competition, will have access to this flourishing market and ASEAN will reduce its heavy dependence on China.

The omission of software and information technology from the FTA is a set back as it is in this sector where Indian exporters could have brought in good business especially with the down turn in the U.S. markets.

INDIA FTA WITH EUROPEAN UNION (EU):

India is an important trade partner for the EU and a growing global economic power. It combines a sizable and growing market of more than 1 billion people with a growth rate of between 8 and 10 % - one of the fastest growing economies in the world. Although it is far from the closed market that it was twenty years ago, India still also maintains substantial tariff and non-tariff barriers that hinder trade with the EU. The EU and India hope to increase their trade in both goods and services through the Free Trade Agreement (FTA) negotiations that they launched in 2007

Trade in goods

- EU goods exports to India 2009: **€27.5 billion**
- EU goods imports from India 2009: **€25.4 billion**

Trade in services

- EU services exports to India 2009: **€8.6 billion**
- EU services imports from India 2009: **€7.4 billion**

Foreign Direct Investment

- EU outward investment to India 2009: **€3.2 billion**
- Indian inward investment to EU 2009: **€0.4 billion**

Table 2**INDIA, TRADE WITH THE EUROPEAN UNION** millions of euro, %

Period	IMPORTS	EU Share of total Imports (%)	EXPORTS	EU Share of total Exports (%)	Balance	Trade
2005	17,848	16.6	17,591	22.5	-258	35,439
2006	26,843	18.2	20,688	21.4	-6,155	47,531
2007	32,428	18.0	24,186	22.0	-8,242	56,614
2008	27,743	14.6	25,748	21.6	-1,996	53,491
2009	26,434	14.5	25,045	21.3	-1,389	51,479
2009Q1	6,251	16.5	6,643	23.0	392	12,894
2009Q2	6,445	14.2	5,663	20.2	-782	12,107
2009Q3	6,241	13.7	5,913	20.0	-329	12,154
2009Q4	7,497	14.1	6,826	22.0	-671	14,324
2010Q1	7,034	12.1	7,138	19.4	104	14,173
2010Q2	8,840	14.5	7,101	18.0	-1,739	15,941
2010Q3	-	-	-	-	-	-
2010Q4	-	-	-	-	-	-

INDIA CHINA ECONOMY, INDO-CHINA TRADE RELATION

Among the most encouraging recent developments in **India China Economy** and India-China ties is the rapid increase in bilateral trade. A few years ago, India Inc had a fear of being swamped by Chinese imports. Today, India enjoys a posi-

tive balance of trade with China. In 2004, India's total trade to China crossed US \$13.6 billion, with Indian exports to China touching \$ 7677.43 million and imports from China at US \$ 5926.67 million.

Chinese Premier Wen Jiabao said "We have set an objective (in the joint statement) to increase the two-way trade volume from 13.6 billion dollar at present to 20 billion dollar by 2008.....we plan to take it to 30 billion dollar by 2010." Addressing Indian business leaders at New Delhi on April 11, he said that the two countries agreed for a joint feasibility study for a bilateral Free Trade Agreement.

India China Economy have also agreed to work together in energy security and at the multilateral level at the WTO to support an "open, fair, equitable and transparent rule-based multilateral trade system". Indian Commerce Minister Kamal Nath said China was poised to become India's largest trade partner in the next two-three years, next only to the US and Singapore.

According to a CII study, special focus on investments and trade in services and knowledge-based sectors, besides traditional manufacturing, must be given, in view of the dynamic comparative advantage of India. Indian companies could enter the \$615 billion Chinese domestic market by using it as a production base.

CONCLUSION:

Exports are the major focus of India's trade policy. The export sector is a core sector in the economic growth of the country and is important for addressing macro economic concerns. The various trade agreements between India and other foreign countries will induce a life to the affected economy due to recession. It will make India one of the major economic power is the nearby future. The incentives offered by the export promotion package are comparable to that of any other country. The focus remains on inducing the foreign investors to set up export oriented units in India. India offers a production base for foreign markets around the world for sourcing components and products manufactured at a low cost.

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