

Free Trade as a New Phenomenon Ininternational Trade: India and Asean

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ABSTRACT

India and ASEAN countries have had a good history of trade and international cooperation. Over the years, both have tried hard to expand and intensify their international ties. The Indian-ASEAN free trade agreement (India-ASEAN FTA) has been a major step in the direction of intensifying cross border trade India's exports to ASEAN increase substantially, with the largest accesses gained in Thailand, Cambodia, Viet Nam, Malaysia, the Philippines and the Lao People's Democratic Republic. The main sources of imports are Vietnam, followed by the rest of ASEAN, the Philippines, Malaysia, Singapore and Thailand.

Impact of the FTA is seen in the case of the South Asian developing countries, particularly Bangladesh. Thus, trade diversion occurs in the India-ASEAN region as a result of the FTA. The study also attempted to analysis the long-term effects of the FTA on India. It is argued that after full trade liberalization, India's allocative efficiency will increase, but the terms of trade effect will worsen continuously and remain negative. India will be able to arrest the worsening in terms of trade once the gain in allocative efficiency is used to improve productivity in the export-oriented sectors as well as achieve economies of scale.

Keywords: (FTAs), international trade

I. INTRODUCTION

The significant shifts in the development of global trade in the 20th century provoked the emergence of the new phenomena in the international trade organization. The regional free trade agreements can be regarded as one of these phenomena. The free trade concept was introduced in "Theory of Comparative Advantage" by David Ricardo who claimed that the nations will attain significant benefits by specializing in production of goods and services that they can create more efficiently and cheaper and then trade these products with other countries which fail to produce them as effectively. The growth of

world trade has been stagnant in recent years and trade liberalization has now been challenged. The recent rise of anti-globalisation calls for a better integration in East Asia. How should East Asia manage its openness? This book provides profound analyses on how FTAs affect trade in the region, rules of origins, non-tariff measures and restrictiveness in services and investment. It gives insight into how East Asian countries should shape their trade, investment and industrial policies. This book helps to answer the question of what kind of a better integration this should be and how East Asia can realize it.

Nowadays, the trend of global division into the trade blocs gathers momentum. The USA and the European Union actively support the free trade policies by cooperating with the neighbouring countries. The economic bloc parties persecute the national financial interests by preventing competitors from entering into the agreements in the same regions. By the end of the 20th century, there were nearly one hundred international economic blocs in the world. According to the World Bank's estimations, about a half of the global international trade operations is conducted within these regional trade zones

According to findings in the previous research, one of the potential advantages of the international multilateral trade agreements is the development of relationships among the number of countries involved in these agreements. In the trade blocs, the cross-country trade barriers between the parties are decreased or completely removed, and it is expected that all the participants attain the relevant benefits (Trade blocs and common markets, 2015, par. 2). However, it is observed by many researchers, that the current trade agreements usually do not support multilateral interests and are bilateral in their nature.

There are many barriers and obstacles on the way to the unification of the international trade system in the global market. These barriers are mainly caused by the controversies and differences in the countries' interests emerging in the interrelation processes of the separate countries and the regional economic blocs.

According to Kono (2007), the regional trade agreements weaken the mechanisms of the international trade regulation elaborated by the World Trade Organization (WTO), and they thus prevent the development of the world trade integration (p. 178). Therefore, the adoption of the unified rules for the trade bloc formation is of significant importance. And it is vital for the trade blocs' participants to comply with WTO's regulations and norms. Based on this, it is possible to say that trade agreements must become more open and must allow the inclusion of a wider number of participants. In this way, the positive solution for the current issues in the global trade market may be found.

II. LITERATURE REVIEW

Review of International Trade, rules of origins (ROOs) are a vital aspect of any FTA and must be met in order to get tariff advantages and be listed on the eligibility list. Due to these factors, renowned trade economists prefer the term "preferential trade agreement" over the more often used "free trade agreement." We will, however, continue to use the more common "FTA" throughout this piece. Under a free trade agreement (FTA), as opposed to a customs union (CU), each country involved keeps its own external tariffs that often vary from those of the other participants while providing preferential tariffs to those nations. **Namita Kaur(2017)** Strengthening trade relations with East Asian countries has always been a matter of priority for India. This research paper measures the Indian export competitiveness vis-à-vis ASEAN countries in case of agriculture products. It found that the products which India exported to ASEAN countries from 2001-15 showed little change in the comparative advantage and competitiveness. The India-ASEAN FTA that successfully liberalizes trade in service and investment will therefore provide economic opportunities for companies in ASEAN countries to strengthen their competitiveness in the global market by fragmenting their production and establishing industrial clusters.

KikiVerico (2016)Originally, AFTA was expected to create intra-regional trade (trade creation) rather than to attract long-run investment of FDI inflows (investment creation) this is expected to be achieved through an increase in intra-Regional trade among its member states. ASEAN Free Trade Area (ASEAN FTA) has significantly changed the major factors that affect FDI inflows in ASEAN region. It has two scenarios: First is the direct impact of AFTA on intra-regional trade and second is the indirect impact through intra-Regional trade. ASEAN's regional-level trade agreement (AFTA)

is expected to affect FDI inflows positively in Southeast Asia. The ASEAN spaghetti-bowl phenomenon emerges because member states create direct bilateral trade agreements with non-member states. These trade agreements open the "closed door" or discriminative policy of AFTA.

Lili yan ing(2017)the number of regional and bilateral free trade agreements (FTAs) in East Asia has increased rapidly along with the world trend of FTAs. Until the 2000s, only a few countries had joined regional or interregional agreements on trade preferences in this region. Although the first regional FTA in this region, the ASEAN Free Trade Area (AFTA), was established in 1992, the formation of regional FTAs lagged behind other regions. Since then, more than 40 FTAs have been established by East Asian countries. The ACFTA and AKFTA could have a trade diversion effect against trade among members.

Julien CHAISSE(2018)the gravity model is one of the most important methods to analyse international trade relations, particularly in analysing bilateral trade flows. It is based on Newton's theory that the gravity between two objects is related to their masses and negatively by the distance between them. One important fact is that transport cost is still take a larger part in transaction cost. Gross Domestic Product (GDP) represents the economic size of two countries with respect to production capacity and size of market. Countries with a larger production capacity tend to get economic of scale and improve their comparative advantage. The farther distance and poorer infrastructure gain transport costs.

Mansoob Murshed(2015) ASEAN Free Trade Area (AFTA) was agreed by ASEAN member countries to establish a regional trade area aimed at improving regional economic competitiveness. Agreement is accelerated and agreed to start in 2002 through Common Effective Preferential Tariff (CEPT). The removal of trade barriers has been centred on the removal of intra-ASEAN tariffs

Peter van Bergeijk (2017) ASEAN and Countries/Dialogue Partners should reach the target of per-capita income convergence so the inequality of the per capita income can be reduced. Policy implications are how ASEAN and countries/dialogue partners must consider the principle of fairness and mutual benefit. ASEAN member countries should continue efforts to increase the national exports to several countries. Exports of products from the industrial sector should be targeted to be increased. Imports of goods used as auxiliary raw materials and for

further production processes in the domestic industrial sector also needs to be prioritized.

Varma, Anil(2015) ASEAN countries use the India-ASEAN free trade agreement (FTA) route to engage trade with India. Many of these countries enjoy high productivity in agricultural sector as their farm production is incorporated in more capitalist production mode. This helps them to enjoy very high productivity for their products which give them a comparative edge in international markets. The study finds that the lists are not prepared with scientific impact assessment techniques, or with wide consultations with the farming community. Adequate representation needs to be given to the farmers and planters. The government may provide adequate price, market and other fiscal measures to ensure that none of them are priced out in the international market.

Chandran, B.P. Sarath(2018) ASEAN import to India remained static during this period from 39.89 billion in 2010 to 39.10 billion in 2015. The main reason for this stagnation in trade is the prevailing global environment. For India to exploit the trade potential with ASEAN the FTA should be operationalized beyond trade in goods to services and investment agreements.

Abhishek Jha(2021) The protection accorded to agricultural trade continues to be a contentious issue in the multilateral trade negotiations across the globe. Developed and industrialized countries extend support to their agricultural sector through tariffs, non-tariff barriers and subsidies. These may discourage exports of agricultural products from developing countries. ASEAN's protectionism on India's agriculture exports may act as an impediment due to added cost, risk, and time. A dialogue regarding the standardization of NTMs needs to be initiated at multilateral and regional level. The way forward may also require India to formulate and execute several domestic measures to escalate the quality of her fresh and processed agricultural products

III. BACKGROUND OF THE STUDY

Third Athukorala The political leadership and the high-level technocrats are more likely to engage in FTA talks rather than domestic changes because of the potential benefits to their careers. When foreign dignitaries visit (or are asked to visit) a country, it provides a great opportunity for media attention ('photo ops') because of the signing of free trade agreements. It is easier to negotiate FTAs than it is to deal with complicated supply-side challenges at home.

Notwithstanding of the motivations, a nation with weak technical and institutional

capacities should be wary of a policy bias in favour of FTAs. When deciding between signing FTAs and implementing necessary supply-side changes, there is always the risk of a pricey trade-off (Cattaneo, 2019).

The recent fervour for negotiating and ratifying FTAs may have unintended institutional consequences. There will be inefficiencies in resource allocation as a result of the development of FTAs, which will cause tariff structures to become substantially diverse among countries. Complicated customs administration, weakened efficiency gains in the custom system, and new potential for corruption result from the overlap of standard most favoured country (MFN) tariff rates, FTA tariff concessions, and several 'rules of origin' related to the FTA tariff concessions (Bhagwati, 2018; Krishna, 2018).

How well one country's exports and imports line up with those of another is an indicator of how trade-compatible the two economies are (Michael, 2017). Trade compatibility is determined by a country's comparative advantage in international production, which in turn is determined by the country's resource endowment and economic development level. There is a correlation between a country's economic size and the diversity of its product mix.

Most of the free trade agreements (FTAs) cited as "success" stories in the policy discussion (such NAFTA, the FTAs between Vietnam and the United States, and the FTAs between Australia and New Zealand and China) are between nations with high levels of trade compatibility with one another. The inability to achieve significant progress with the Doha Round of International Trade Negotiations began in 2001 is generally cited as a major factor in the increasing focus on signing FTAs, according to proponents of FTAs.

Annual data on the reporting of FTAs to the WTO, however, demonstrates clearly that the proliferation of FTAs began around the time of the successful conclusion of the Uruguay Round negotiations, which dramatically lowered trade barriers globally under the newly restabilized WTO.

Over the past few years, free trade agreements (FTAs) have expanded beyond simply removing trade barriers at the border to include provisions for institutional harmonization between the member countries in the areas of intellectual property, health and safety, labour standards, labour migration, investment proportion and protection, banking and finance, investor-state dispute settlement, and others. The term "modern

FTA" has come to describe these types of comprehensive free trade agreements.

OBJECTIVES OF THE STUDY

- The primary objective behind the project is to study the relationship between the member nations.
- To study the effects of FTA on trade at Domestic as well as international level.
- To study the before and after effects on FTA on exports among its members
- To study the diversification in the trade in current era

IV. RESEARCH METHODOLOGY

Methodology:

Research methodology is the way to systematically solve the research problem. It may be understood as a science of study through research, which is now done systematically.

Method comprises the procedure used for generating data.

Data collection plays an important role in research work. Without proper data available for analysis you cannot do the research work accurately.

Research Design:

A research plan is an arrangement of the conditions for data collection and analysis designed to match the research objectives with the economics of the procedure. In short, it is a blueprint for data collection, measurement and analysis. There are three types of research: Descriptive, Exploratory, and Interpretive. But neither strategy is suitable for research work, so a descriptive design is used to conduct research. A descriptive approach, structured and formalized,

provides a comprehensive and in-depth analysis of the research.

Source of Data:

Secondary data are the data which are readily available for the user.

Secondary data analysis saves the time that would otherwise be spent collecting data and especially quantitative data, provides a large high-quality database that would be unfeasible for any individual researcher to collect on their own.

- Certain newspaper articles were referred to understand the current trends in the international market. Newspapers referred were The Economic Times, The Hindu Business Line and Times of India.
- The data collection regarding pricing strategy was completed by review of journal articles and government websites.
- The information was also collected via research papers published previously by various scholars. Nearly fifteen to twenty papers were referred to gather the data related to international trade.

Data Collection Method:

Data collecting is the process of gathering and measuring information on variables of interest, in an established systematic way to answer the research questions, test a hypothesis, and evaluate outcomes. The data collection method used is secondary data which includes the process of referring to secondary information which is readily available in journal articles, scholarly articles, etc.

V. DATA ANALYSIS AND INTERPRETATION

Bilateral Trade Statistics

The trade figures in respect of the ASEAN region for the last seven years (April – March) are as under: **Figures in USD Billion**

India's trade with ASEAN	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
EXPORT (USD Billion)	25.13	30.96	34.20	37.47	31.55	31.49	42.32
%Growth	-21.00	23.19	10.47	9.56	-15.82	-0.19	34.43
IMPORT (USD Billion)	39.91	40.62	47.13	59.32	55.37	47.42	68.08
%Growth	-10.75	1.77	16.04	25.86	-6.66	-14.36	43.57

TOTAL(USD Billion)	65.04	71.58	81.34	96.80	86.92	78.90	110.4
TRADE BALANCE (USD Billion)	-14.78	-9.66	-12.93	-21.85	-23.82	-15.93	-25.76

The above chart shows the overall trade that had taken place between India and Asean countries over several years. The data represents that the exports have increased from 2015 to 2022, which goes same with the imports. The imports

have also grown along with the exports. But according to the trade data shown in the above table, the imports of India are more than the Exports, thus leading to a negative trade balance.

Country wise trade figures

Country	Export (USD Million)			Import (USD Million)			Total Trade (USD Million)			Trade Balance (USD Million)	
	2020-21	2021-22	% Growth	2020-21	2021-22	% Growth	2020-21	2021-22	% Growth	2020-21	2021-22
	INDONESIA	5026	8,471	68	12470	17,702	41	17496	26174	49	-7443
MALAYSIA	6057	6,995	15	8373	12,42	43	14430	19,419	34	-2315	-5429
VIETNAM	4999	6,702	34	6120	7,432	21	11120	14,141	27	-1121	-735
THAILAND	4237	5,751	35	5682	9,332	64	9919	15,083	52	-1444	-3581
PHILIPPINES	1457	2107	44	572	729	27	2029	2,836	39	884	1378
MYANMAR	772	893	15	526	1001	90	1293	1894	45	245	-108
CAMBODIA	166	198	17	39	94	141	208	293	40	129	103
BRUNEI	62	43	-31	329	394	19	392	437	11	-266	-351
LAO PD RP	27	14	-46	1	0	-52	29	15	-46	25	13
Total Trade with ASEAN	31485	42327	34	47420	68081	43	78906	110408	39	-15935	-25753
India's Global Trade	291808	422004	44	394435	613052	55	686244	1035056	50	-102627	-191047
%share	10	10	—	12	11	—	11	10	—	15	13

The above table shows the export and imports done by India with each an every member nation of the Asean countries. The data shown represents the actual total exports done by India to the member nations in the year 2020 up to 2022. Usually, the exports have increased from the previous year in each country except Lao Pa Republic and Brunei. Thus there is negative growth in export for these two countries.

In reference to the imports from these member nations in India, the imports have

concurrently increased as compared to previous years. The imports are almost the same from Lao Pa Republic. Thus, there is almost no negative growth for imports.

When we take a look at total trade, the imports are more than the exports. The imports are basically increasing year by year, then what country is actually exporting. Thus there is a negative trade balance.

Growth of East Asian FTAs by status, 2015–2021

Year	Concluded FTAs		Future FTAs	
	In effect	Signed	Under negotiation	Proposed
2015	3	1	5	4
2018	19	9	36	33
2021	44	6	48	30

The terms "FTAs in effect" and "under negotiation" refer to agreements that have either been signed or are currently being negotiated formally. The terms "proposed" and "signed" refer to agreements that have either been proposed or jointly developed through the establishment of working groups or feasibility studies.

2015-16 to \$44.02 billion in 2020-21, despite not having any FTA with China. Thus, the data reflects that even though FTAs/RTAs give better access to new markets and facilitate exports, there is an urgent need of addressing the key issues such as reducing the trade deficit to make these FTAs/RTAs more effective.

VI. RESULTS AND FINDINGS

India has seen some notable positives from the FTAs in the recent past as data shows a significant increase in the exports to some of the countries. According to data provided by the Directorate General of Commercial Intelligence and Statistics, India’s merchandise exports to countries/regions with which India shares trade agreements such as FTAs have registered a growth of 20.75% in the last five years. Additionally, India’s export to ASEAN has witnessed an increase from \$25.13 billion in 2015--16 to \$31.49 billion in 2020-21. The same trend follows with other countries/regions as well, whereas India’s export to SAFTA countries has increased from \$18.60 billion in 2015-16 to \$22.08 billion in 2020-21 and export to South Korea has increased from \$3.52 in 2015-16 to \$4.68 billion in 2020-21. More importantly, data provided by the Department for Promotion of Industry and Internal Trade suggest that cumulative investment received from the countries India shares FTAs in the last five years is to the tune of \$89.46 billion.

One of the areas of concern for India remains the negative balance of trade with countries such as ASEAN and Japan despite the increase in exports. India has accounted for a trade deficit of \$15.95 billion in 2020-21 with ASEAN countries. At the same time, the trade deficit with Japan remained \$6.49 billion in 20-21. In contrast, India has achieved a rise in exports to the USA and China despite not having any FTAs with both countries. The increase in export is part of India’s increasing focus on making an export-driven economy as India achieved the highest ever exports of 37 billion US dollars in December 2021, which is 37% higher than December 2020. More importantly, India saw a slight improvement in the trade deficit with China from \$52.67 billion in

VII. CONCLUSION

Many people, including those in the media, incorrectly associate the term "free trade" with just trade that is enabled by free trade agreements (FTAs). As the choice of commodity coverage is heavily impacted by political considerations and lobby group pressure, and rules of origin condition the actual trade effect, FTAs are fundamentally preferential trade deals.

The period of economic recovery from the impact of the COVID-19 would be a long and an uphill challenge with countries becoming more inward looking. The post-COVID-19 period, marked by increasing protectionism along with regionalism where countries are starting to look closer home for meeting their supply and demand, is also creating an opportunity for greater intra-regional trade. For India and ASEAN, the completion of ten years of their FTA provides enough experience and understanding to work out and take forward the partnership which when first conceived was based on facilitating economic cooperation. ASEAN countries are not new to facing the challenges posed by the outbreak of major tropical and infectious diseases and in the past, have been able to achieve recovery by showing great resilience. As India’s economy has also been severely impacted by the pandemic, ASEAN would be a crucial partner in the economic recovery process. Given the increasing level of economic partnership between ASEAN and India over the last decade, the recovery from the pandemic would require deeper cooperation by strengthening connectivity for the movement of goods and services along with further liberalization of trade and investments.

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