SHANKAR
IAS PARLIAMENT
Information is Empowering

Analysis of Free Trade Agreements

What is the issue?

\n\n

Free trade agreements (FTAs) have been signed the world over and hence it is important to analyse its impacts.

\n\n

How to select an appropriate FTA partner country?

\n\n

\n
- An FTA is an arrangement between two or more countries under which they agree to end tariffs and non-tariff barriers on a large value of imports from partner countries.
\n
- The agreement may also cover services, investment, and economic cooperation.
\n
- Selection of an appropriate FTA partner is more important than the later act of negotiations.
\n
- FTA outcome depends more on the trade profile of the FTA partner and less on the skill of trade negotiators.
\n
- The impact of an FTA on the exports, imports, domestic industry, and consumers can be predicted with a fair degree of accuracy.
\n

\n\n

What could be the impact?

\n\n

\n
- **Market access** - FTA involves providing market access at zero duty between the countries.
\n
- A country with a large bilateral trade deficit tends to lose from the FTA

agreement.
\n

- This is because, since the higher exporting country exports more number of goods/services, the market access gained from FTA invariably benefits them more.
\n
- **Non-tariff barrier (NTB)** – A nontariff barrier is a way to restrict trade using trade barriers in a form other than a tariff.
\n
- Nontariff barriers include quotas, embargoes, sanctions, levies and other restrictions.
\n
- NTB issues are not resolved in most FTAs.
\n
- As a result, many times a partner country refuses imports even though it agreed to provide zero duty access.
\n
- Experience shows that it is easier to harmonise when partners are at a similar level of development.
\n
- So countries with diverse levels of development can hardly hope to align Non-Tariff Barriers.
\n
- For example, under a compulsory license, an individual or company seeking to use another's intellectual property can do so without seeking the rights holder's consent.
\n
- While patent owners usually have the right to decide on granting licenses for their products, compulsory licensing route is an exemption to the general rule.
\n
- However, the US has restricted many FTA partners from using compulsory licensing, evenwhen allowed under the TRIPs.
\n

\n\n

\n

- **Trade diversion** - Countries with high import duties are at a disadvantage.
\n
- FTAs favour products from partner countries by allowing them duty-free access, while products from other countries continue to pay import duties.
\n

\n\n

\n

- This leads to the replacement of goods from the more efficient non-FTA country supplier by less efficient FTA partner country supplier.
  \n
- This makes the countries with high import duties to suffer from high trade diversion.
  \n
- Also, since zero duty imports tend to become cheaper than the local products, it will subsequently affect the business of the local industries.
  \n

\n\n

How much will exports grow post FTA?

\n\n

\n

- Export growth post-FTA can be predicted to a fair level using - normal market access (NMA), additional market access potential (AMAP), and real additional market access (RAMA).
  \n
- A country exporting goods to a partner country, before signing an FTA, will normally be levied import duties and get a normal market access for its goods.
  \n
- If the importing country accept to end import duty on all products through an FTA agreement, the exporting country will get an additional market access potential (AMAP) for its goods.
  \n
- Thus, an AMAP has just created a possibility of more exports of goods from exporting to the importing country.
  \n
- In reality, more exports will take place only if these products become cheaper than the similar products supplied by competing countries.
  \n
- Thus, real additional market access (RAMA)lies in the real possibility of an increase in export of goods from exporting to the importing country, on account of lowering duties.
  \n
- A high RAMA level decides the effectiveness of an FTA.
  \n
- All market access except RAMA are frivolous and do not result in any more trade.
  \n
- A most favoured nation (MFN) clause requires a country to provide any concessions, privileges, or immunities granted in a trade agreement to one

nation to all other WTO member countries.
\n
- Thus, doing FTAs with low MFN duty countries does not result in RAMA, since it already provides equal treatment of all countries.
\n

\n\n

Will the FTA allow participation in global value chains (GVCs)?

\n\n

\n
- For taking part in GVCs, members must agree to a zero tariff zone and relax the rules of origin.
\n
- Most FTAs fail to deliver on these counts, wherein members do not agree to a zero tariff area or even to a common tariff concession list.
\n
- This is because most countries already have an FTA with each other, so incremental market access would be negligible.
\n
- For example, in the case of RCEP, many countries have FTAs within each other, and the final negotiations will just add few new tariff concession lists apart from the existing concessions between them.
\n
- Thus, to ensure fair trade and increase the potential of global value chains, FTAs has to move from being a political to an economic decision.
\n

\n\n

\n\n

Source: Business Line

\n