Significance of FTAs

What is the issue?

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In recent times the idea of establishing free trade agreements (FTAs) is gaining ground.

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What are the existing concerns prevailing in world economy?

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- Erratic and inconsistent stand of the US has sent out confusing signals to the world economy and thwarts the very existence of both the World Trade Organisation (WTO) and multilateralism.
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- Under such uncertainties, many developing countries are left with limited options of signing regional trade agreements with their emerging and comfortable trade partners.
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What is the global response in this regard?

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- Policymakers and economists believe FTAs could play a crucial role in pursuing the trade reform agenda.
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- Under FTA any two or more countries can establish a free trade area where commerce in goods and services can be conducted across their common borders, without tariffs or hindrances.
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- Here it should be clear that under a FTA capital or labor may not move freely.
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- Member countries usually impose a uniform tariff (called common external

tariff) on trade with non-member countries.
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- Under FTA, if a country is not yet ready for global competition, it can pick and choose trading partners with which it feels relatively more comfortable.
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- This may help raise a country’s confidence and competitiveness, and pave the way for eventual free trade at the global level.
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How FTA will resolve such issues?

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- FTAs can benefit member countries in various ways, like slowly boosting global free trade by allowing member countries to intensify their level of competition.
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- It provides time to the domestic industry to adjust, and creating an arena to tackle difficult issues like agricultural subsidies and trade in services.
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- The circles of trade that are created through FTA can help converge to form expansive multilateral agreements.
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- Long-term political and ethnic hostility among various member countries can be minimised to an extent with the signing of FTAs.
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- Formation of FTAs can be seen as a strategic move to consolidate peace and increase regional security among member countries.
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- Setting up of FTAs can promote the spirit of open regionalism which would be complementary to a non-discriminatory multilateral system, as espoused by the WTO.
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Source: Financial Express

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