iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 11 **Issue:** X **Month of publication:** October 2023

DOI: https://doi.org/10.22214/ijraset.2023.56242

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 11 Issue X Oct 2023- Available at www.ijraset.com

Do Poor Countries Lose Out as a Result of Free Trade Agreements?

Saurish Reddy Dirisala
The International School Bangalore, Bangalore, India

***Abstract:** International trade is exchange of goods and services between nations either due to demand for goods and services owing to scarcity in that particular nation. In the process of cross border trade some nations may be at a disadvantage and are likely to put barriers like tariffs and restrictions in place to save their local manufacturers. Free Trade Agreements (FTA) are a way to open trade selectively with other nations while protecting their local manufacturers. But there is a notion among the poor nations that signing an FTA would put their economy at a disadvantage. The major motivation of this research paper is to study and prove that this is only a myth and not a fact. Analysis is done for various FTAs signed by India with other nations in the region. I explored import and export data of these nations with India before and after they signed the FTA.*
***Keywords:** Free Trade Agreements, International Trade, Export and Imports.*

I. INTRODUCTION

Trade has been an important part of our human civilization. International trade is a vital element of globalisation. With nations trading goods and services with each other, international trade is complex with trade barriers like tariff quotas, technical regulations. These barriers can hinder the free trade between nations. Free Trade Agreements are a method of overcoming these trade barriers and ensure smooth trade flows between nations thereby offering goods and services to their consumers at low prices.

The FTA is signed between two nations to increase economic cooperation between them and mutually benefit is called bilateral Free Trade Agreement. An example of the is the Indo-Sri Lanka Free Trade Agreement (ISFTA). An agreement between a group of nations sharing similar interests is called a multilateral free trade agreement. A multilateral free trade agreement could be signed between nations of a closed region like the South Asian Free Trade Agreement (SAFTA) signed by India and its neighbouring nations. Another example is the North American Free Trade Agreement (NAFTA) signed by USA, Canada and Mexico.

II. ISSUE

Free trade agreements or FTAs are agreements between two nations agreeing to form a free trade area between them. The FTAs can be of two types bilateral and multilateral. Bilateral FTAs are signed between two nations allowing free movement of goods and reduction in tariffs on export and import subject to certain conditions. Multilateral FTAs are trade agreements between three or more nations that form a close group or share common interests. The main aim of the FTAs is to decrease the trade barriers between these nations thereby lowering the prices of certain goods for consumers. Multilateral FTAs are difficult to negotiate.

The idea of FTA looks good but however the poorer or smaller nations are always of the notion that the richer/developed nations will dominate their markets with cheaper goods using advanced production facilities there by killing the homegrown industry. And this leads to job losses and political unrest. This is a reason why poor nations hesitate to sign FTAs with developed nations. This paper examines whether the FTAs are beneficial to the poorer nations or richer nations. For the case study I have taken FTAs signed by India with poorer nations like Sri Lanka, Bangladesh, Afghanistan, Bhutan and Pakistan. At the same time I have included nations like Japan, Singapore and Malaysia in the case study to check if India gained with FTAs with these developed nations.

III. WHAT I FOUND

FTAs are supposed to increase the trade between the nations. All the data analysis done support this theory.

All the poor nations that India signed FTAs like Sri Lanka, Bangladesh, Bhutan and Afghanistan showed an increased trade flow and also narrowed their trade balance with India after signing the FTA. The only exception is Pakistan where the trade gap has widened due to bilateral political tensions.

When it comes to the trade with nations like Japan, Singapore and Malaysia the trade flow has increased barring Japan for some reasons to be investigated. But India being poorer than these has narrowed its trade gap with these nations to some extent.

IV. METHODOLOGY ADOPTED FOR THE STUDY

This paper provides trends of trade flows between the nations for 5 years before the FTA was signed and for 5 years after the FTA was signed. The average volume exports and imports are used for comparison by using the trade statistics. I have calculated the growth in exports of a nation with India for a period of 5 years before the FTA was signed with growth in the aftermath of signing the FTA. Similarly, growth in imports was also calculated for the two periods for comparison.

V. DOES FTA INCREASE TRADE?

In theory international free trade between nations allow businesses in each nation to make best use of their resources and focus to produce and sell goods while other businesses import goods that are scarce or otherwise expensive the produce locally. This concept of local production mixed with foreign trade allows nations to grow faster while serving their citizens at lower costs.

This view was first popularized in 1817 by economist David Ricardo in his book, "On the Principles of Political Economy and Taxation." He argued that free trade expands the diversity and lowers the prices of goods available in a nation while better exploiting its homegrown resources, knowledge, and specialized skills

But to safeguard their local producers and be self-sufficient nations aften put barriers like duties and restrictions to discourage their citizens from importing. Nations try to strike a trade balance using these techniques.

The answer to whether trade increase with FTAs is YES. As of 31st Dec 2008, as per the WTO 243 Regional trade agreements are in existence of which 91% are Free Trade Agreements. And many of these FTAs are overlapping and allow some nations to become a hub in the FTA network. An example is though India does not have FTA with USA or China, it has FTA with South Korea. Hence USA and China are using Korea as manufacturing hub to export goods to India using their FTA with South Korea. This is a classic example of how trade increases with FTA. With careful negotiations between the nations some goods and be exported and imported without killing their local producers thereby increasing trade.

VI. THE FTAs SIGNED BY INDIA

So far, India has signed 13 Free Trade Agreements (FTAs) with its trading partners, including the 3 agreements, namely India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA), India-UAE Comprehensive Partnership Agreement (CEPA) and India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA) signed during the last five years. The list of FTAs signed by India is as under:

1) India-Sri Lanka Free Trade Agreement (FTA)
2) Agreement on South Asian Free Trade Area (SAFTA) (India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan, the Maldives and Afghanistan)
3) India-Nepal Treaty of Trade
4) India-Bhutan Agreement on Trade, Commerce and Transit
5) India-Thailand FTA - Early Harvest Scheme (EHS)
6) India-Singapore Comprehensive Economic Cooperation Agreement (CECA)
7) India-ASEAN CECA - Trade in Goods, Services and Investment Agreement (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)
8) India-South Korea Comprehensive Economic Partnership Agreement (CEPA)
9) India-Japan CEPA
10) India-Malaysia CECA
11) India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)
12) India-UAE CEPA (*)
13) India-Australia Economic Cooperation and Trade Agreement (ECTA) (*)

VII. BACKGROUND ON TARIFFS

Nations around the world have limited natural and human resources that limit their ability to produce certain goods and services. They trade with other nations wo meet the demands of their consumers. However, trade isn't fair between nations. Policies, Politics, Competition make trading partners unhappy.

Governments use tariffs as a means to deal with nations they disagree with. A tariff is a tax imposed by one country on the goods and services imported from another country to influence it, raise revenue, protect domestic industries, or exert political leverage over another country. Tariffs often result in unwanted side effects, such as higher consumer prices.

VIII. CHANGES IN EXPORTS TO INDIA

Figure 1 and 2 illustrates changes in FTA partner 5year average exports to India before and after the FTA was implemented. Sri Lanka's average exports to India was a paltry 38 million USD in the 5 years prior to the implementation of the FTA and increased to an average of 312 million USD in the 5 years after FTA implementation. This indicates that ISFTA has worked well and increased the trade between India and Sri Lanka.

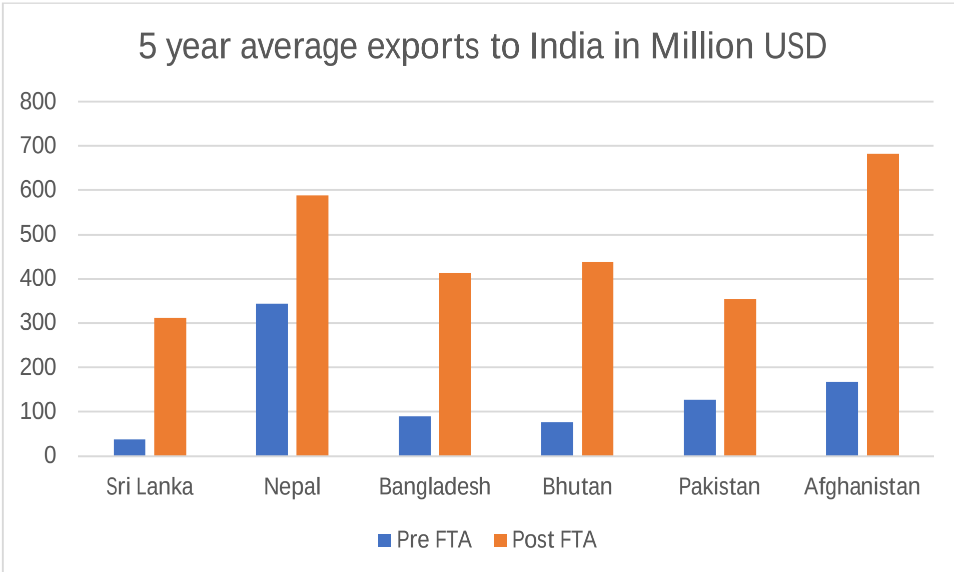


Figure-1

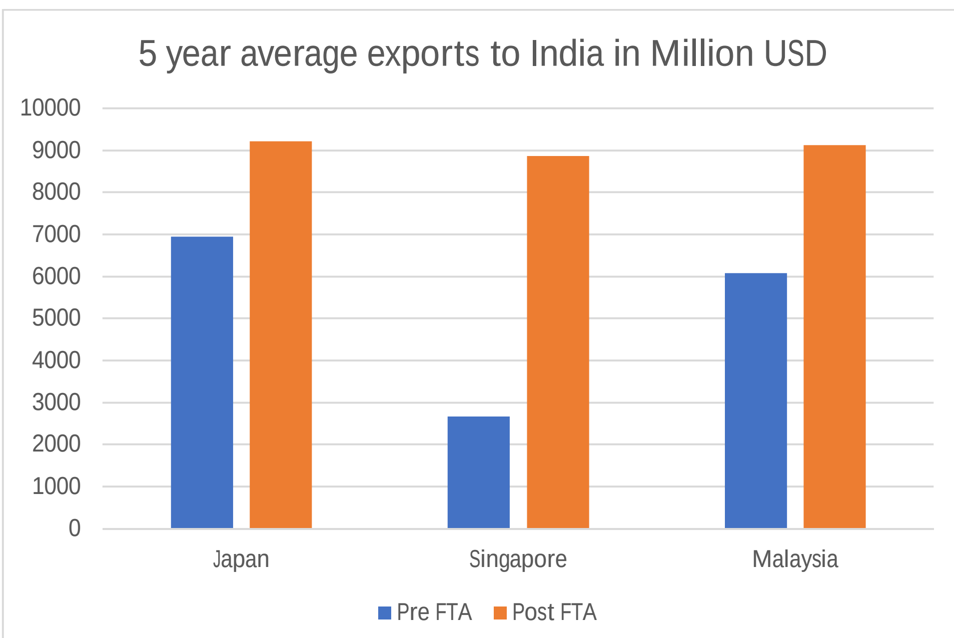


Figure-2

IX. CHANGES IN EXPORTS FROM INDIA

Figure 3 and 4 illustrates changes in FTA partner 5year average exports to India before and after the FTA was implemented. Sri Lanka's average exports to India was a paltry 38 million USD in the 5 years prior to the implementation of the FTA and increased to an average of 312 million USD in the 5 years after FTA implementation. This indicates that ISFTA has worked well and increased the trade between India and Sri Lanka.

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 11 Issue X Oct 2023- Available at www.ijraset.com

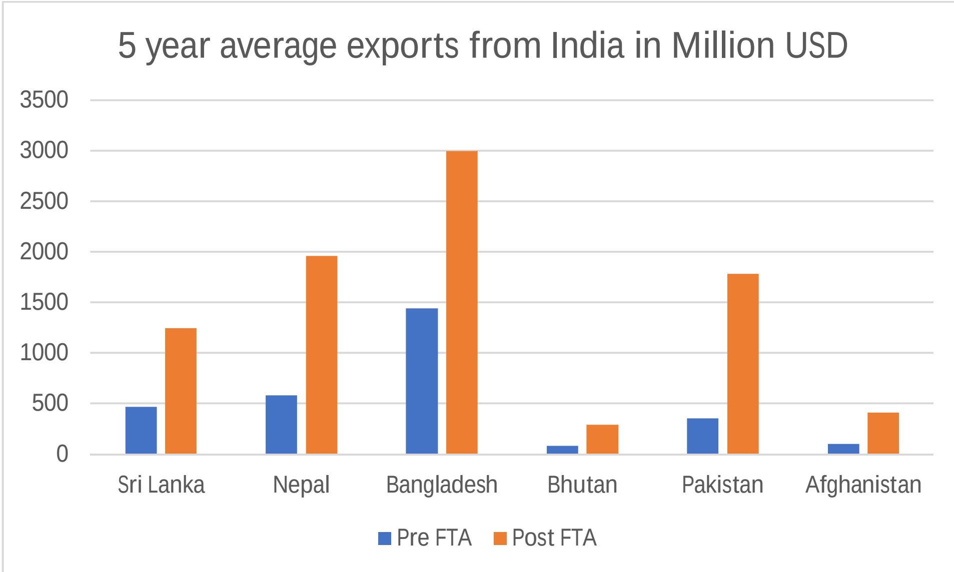


Figure-3

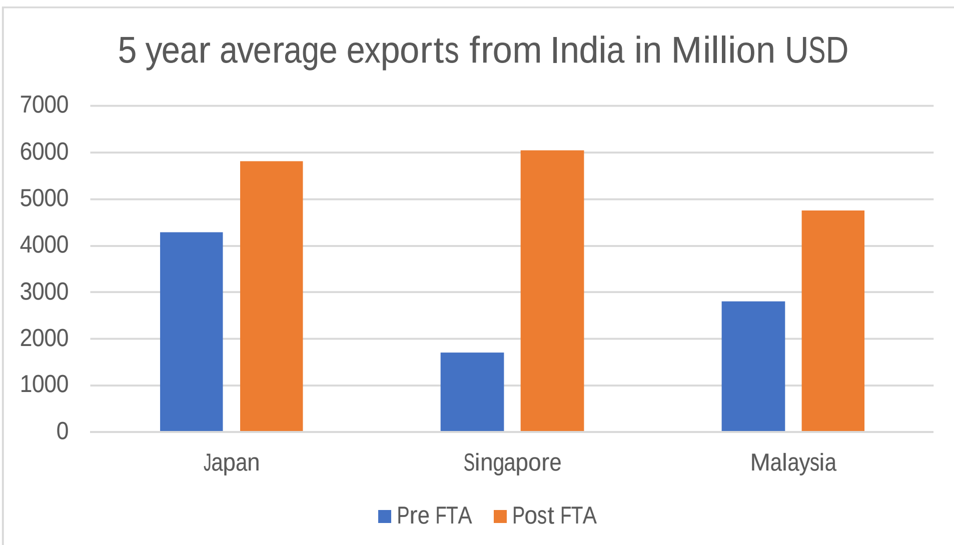


Figure-4

X. HAVE TRADE AGREEMENTS BENEFITED THE POOR NATIONS

A. ISFTA – Sri Lanka

India signed Indo-Sri Lanka Free Trade agreement (ISFTA) with Sri Lanka in the year 2000. The following table shows the exports and imports between India and Sri Lanka during the period from 1995 to 2005.

Table-1

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Imports	397	459	464	434	576	682	686	959	1250	1520	1820
Exports	30.1	38.8	27.4	35.2	58.7	61	88.8	171	246	458	598

*All figures in million USD

It is evident from the above table that the 5-year average exports of Sri Lanka to India was just 7% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Sri Lankan exports to India rose to 20% of its total trade with India. This shows that Sri Lanka benefited from the FTA.

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 11 Issue X Oct 2023- Available at www.ijraset.com

B. SAFTA – Bangladesh, Bhutan, Pakistan and Afghanistan

India signed South Asian Free Trade Agreement (SAFTA) with Bangladesh, Bhutan, Pakistan and Afghanistan in the year 2006. The following table shows the exports and imports between India and its partners during the period from 2001 to 2011.

Table-2

	Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Bangladesh	Imports	1130	1118	1660	1610	1710	1830	2260	3300	2320	3320	3800
	Exports	64	70.9	87.2	89	134	244	513	333	252	376	593
Butan	Imports	5.67	22.5	80.6	84.5	220	193	224	224	270	378	378
	Exports	22	23.4	49	48	245	327	616	647	398	258	273
Pakistan	Imports	164	193	211	540	653	1280	1590	1810	1490	2300	1730
	Exports	66.5	32.8	95.9	95.9	345	356	334	424	289	357	369
Afghanistan	Imports	20.6	48.9	114	166	147	170	217	390	488	416	549
	Exports	19.2	17	26.2	52.2	53.1	45.6	75.2	155	143	165	144

*All figures in million USD

1) Bangladesh

It is evident from the above table that the 5-year average exports of Bangladesh to India was just 5.8% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Bangladesh exports to India rose to 12.1% of its total trade with India. This shows that Bangladesh benefited from the FTA.

2) Bhutan

It is evident from the above table that the 5-year average exports of Bhutan to India was just 48.4% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Bhutan exports to India rose to 59.8% of its total trade with India. This shows that Bhutan benefited from the FTA.

3) Pakistan

It is evident from the above table that the 5-year average exports of Pakistan to India was 26.5% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Pakistan exports to India declined to 16.6% of its total trade with India. This shows that Pakistan lost from the FTA. However, the reasons are not economics but due to terrorist attacks in 2008 on India and the aftermath decisions.

4) Afghanistan

It is evident from the above table that the 5-year average exports of Afghanistan to India was 25.2% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Afghanistan exports to India did not make any progress and stood at 24.9% of its total trade with India. In the case of Afghanistan there is no difference but we can say that the general notion that the poorer nation loses do not hold.

C. India's trade with rich nations:

1) Malaysia

The Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) was signed on 18 February 2011 and came into force on 1 July 2011. The following table shows the exports and imports between India and Malaysia during the period from 2006 to 2016.

Table-3

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Imports	1390	2030	3290	3710	3630	3970	4030	5640	4720	5020	4380
Exports	5070	6030	7470	5130	6680	9470	10100	8570	10100	8790	8080

*All figures in million USD

It is evident from the above table that the 5-year average exports of Malaysia to India was 68.3% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Malaysia exports to India reduced a little and stood at 65.7% of its total trade with India. In this case India gained a little and we can say that the general notion that the poorer nation loses do not hold.

2) Japan

The Japan-India Comprehensive Economic Partnership Agreement (JICECPA) came into force on 1 August 2011. The following table shows the exports and imports between India and Japan during the period from 2006 to 2016.

Table-4

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Imports	3910	3830	4740	3500	5460	6050	6590	7130	6260	4830	4230
Exports	4760	6520	7970	6600	8920	11300	11100	9090	8900	8350	8640

*All figures in million USD

It is evident from the above table that the 5-year average exports of Japan to India was 61.85% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Japan exports to India reduced a little and stood at 61.35% of its total trade with India. In this case India gained a little and we can say that the general notion that the poorer nation loses do not hold.

3) Singapore

The Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) was signed on 29June 2005. The following table shows the exports and imports between India and Singapore during the period from 2000 to 2010

Table-5

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Imports	1000	1160	1510	1670	3190	5110	5660	606	9210	6660	8100
Exports	2290	2410	2040	2810	3790	4710	6400	10200	10300	8080	9370

*All figures in million USD

It is evident from the above table that the 5-year average exports of Singapore to India was 61% of its total trade with India before the FTA was signed. However, after the FTA was signed the share of Singapore exports to India reduced a little and stood at 59.5% of its total trade with India. In this case India gained a little and we can say that the general notion that the poorer nation loses do not hold.

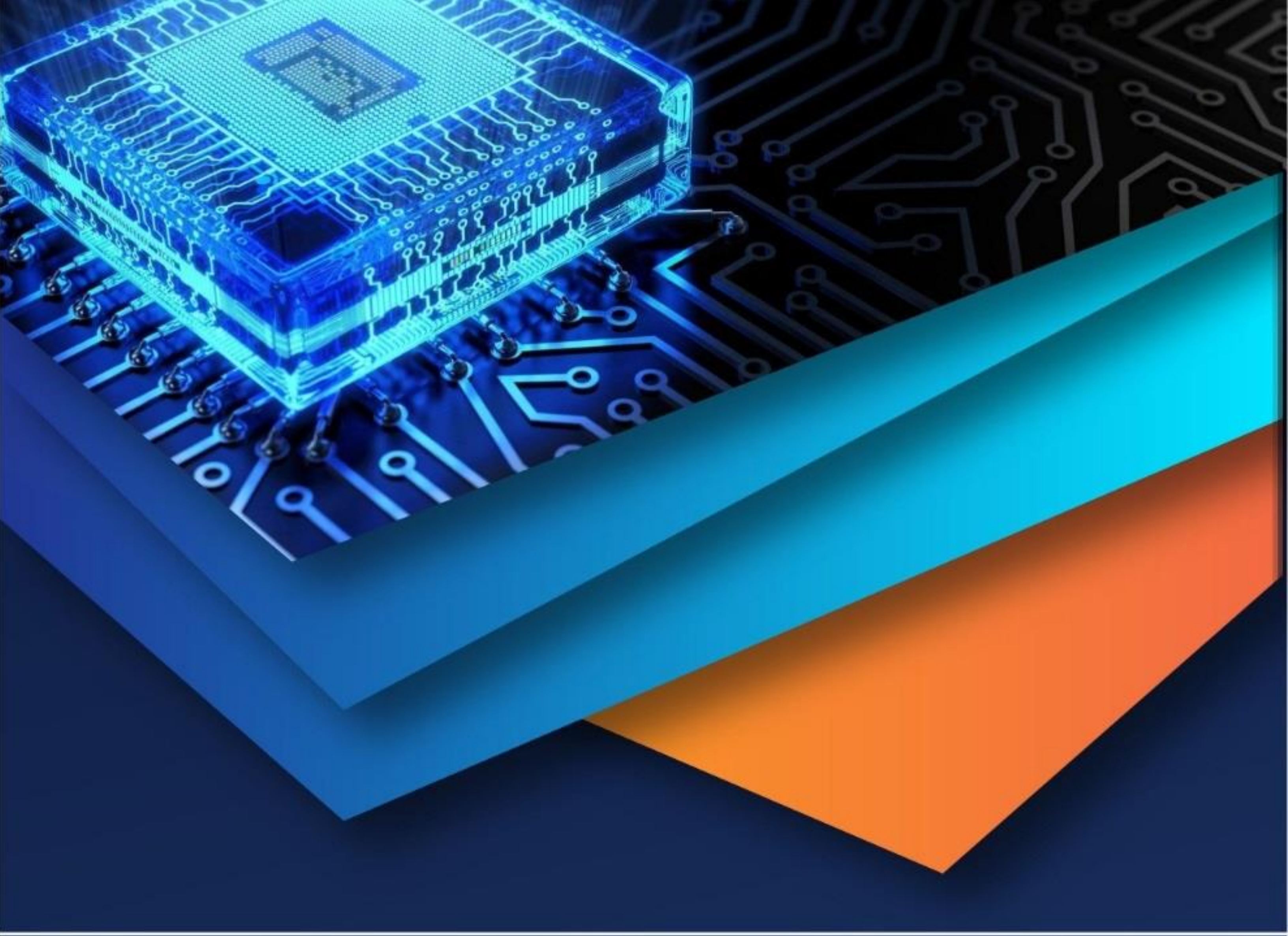
XI. CONCLUSION

Free trade agreements (FTAs) result in more trade between trading partners due to lower tariffs and increase cooperation between them. The result is more trade, lower prices for consumers, and more export opportunities for producers. A review of the literature indicates there is a no relation that a poor nation loses when it enters into an FTA with a rich/developed nation. It is found that the trade between the nations decreased only in case of Pakistan with India due to political tensions and terrorist activities. The general consensus is that trade agreements are beneficial.

REFERENCES

[1] Ajewole, Kayode, et al. Do Free Trade Agreements Benefit Developing Countries? An Examination of U.S. Agreements. 2022.
[2] "CEPII - Profils Pays / Country Profiles." Www.cepii.fr, www.cepii.fr/CEPII/en/bdd_modele/bdd_modele_item.asp?id=30. Accessed 19 Oct. 2023.
[3] "Foreign Trade (South Asia)." Mcommerce, commerce.gov.in/about-us/divisions/foreign-trade-territorial-division/foreign-trade-south-asia/.
[4] "FTAs." Pib.gov.in, pib.gov.in/PressReleasePage.aspx?PRID=1814151.
[5] Hur, Jung, and Cheolbeom Park. "Do Free Trade Agreements Increase Economic Growth of the Member Countries?" World Development, vol. 40, no. 7, July 2012, pp. 1283–1294, https://doi.org/10.1016/j.worlddev.2011.12.006.
[6] "India Has Signed 13 Regional Trade Agreements (RTAs)/Free Trade Agreements (FTAs) with Various Countries/Regions." Pib.gov.in, pib.gov.in/Pressreleaseshare.aspx?PRID=1843902.

[7] International Trade Centre (ITC. "Trade Map - Trade Statistics for International Business Development." Trademap.org, 2019, www.trademap.org.
[8] "Les Profils Pays Du CEPII." Visualdata.cepii.fr, visualdata.cepii.fr/CountryProfiles/fr/?country=Inde. Accessed 19 Oct. 2023.
[9] Macrotrends. "Macrotrends | the Long Term Perspective on Markets." Macrotrends.net, 2023, www.macrotrends.net.
[10] OEC. "OEC: The Observatory of Economic Complexity." Oec.world, 2023, oec.world/en.



10.22214/IJRASET

INDEX COPERNICUS

45.98

IMPACT FACTOR:
7.129

TOGETHER WE REACH THE GOAL

IMPACT FACTOR:
7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY