Ilkogretim Online - Elementary Education Online, 2021; Vol 20 (Issue 6): pp. 3872-3879
http://ilkogretim-online.org
doi: 10.17051/ilkonline.2021.06.367

Regional Trade Agreements With Special Focus On Motives For Formation Of A Nation

Srijanee Chattopadhyay Research Scholar, Department of Political Science, Dr. A.P.J. Abdul Kalam University, Indore M.P., India.

Dr. Manoj Parmar Research Guide, Department of Political Science, Dr. A.P.J. Abdul Kalam University, Indore, M.P., India.

Abstract:

Regional trade agreements (RTAs) cover more than half of international trade today, operating alongside global multilateral agreements under the World Trade Organization (WTO). In recent years, many countries have actively sought to establish new and often more modern and progressive – bilateral and regional trade agreements that aim to increase trade and boost economic growth. The current proliferation of RTAs reflects, in part, a demand for deeper integration than what has been achieved by older multilateral agreements. To the extent that RTAs go beyond commitments made in the WTO and remain open to additional participation by countries committed to meeting their standards, they can complement the multilateral trading system. In this article, regional trade agreements with special focus on motives, trends and significance for a nation's formation has been highlighted.

Keywords: Regional, Trade, Agreements, Nation, Motives

INTRODUCTION:

According to the Dictionary of Trade Policy Terms, regionalism refers to government initiatives to liberalize or facilitate trade on a regional basis, frequently through free trade zones or customs unions. Regional economic integration therefore happens when a group of countries lowers (artificial) barriers to global trade and competition. In the context of the WTO, regional trade agreements (RTAs) have both a more general and a more specific meaning: they are more general because agreements between countries that do not necessarily share the same geographical region can be reached, and they are more specific because WTO clauses specifically address the conditions of preferential trade liberalization with RTAs. Since the Second World War, regional trade agreements have become more and more popular until they have supplanted other trade liberalization strategies in recent years. (Pal 2004).

TYPES OF REGIONAL TRADE AGREEMENT:

Each RTA receives distinct preferred treatment and levels of exposure. RTAs in the modern era frequently go much beyond simple efforts at tariff reduction. Typically, they present a favoured regulatory framework for the exchange of mutual services. Additionally, they offer convoluted rules governing internal trade (e.g., regarding standards, safeguard requirements, customs administration, etc.). In addition to standard trade policy tools, the most advanced RTAs also include regional laws on investment, competition, environment, and labour issues (Lynch, 2010). Based on integration of economic and policy factors, the following types of regional economic integration agreements can be distinguished:

In PTAs, two or more nations join forces to form a trade club or union and exchange favours and concessions in the form of lower import duties. The member nations continue to impose their own taxes on foreign goods. The United Kingdom-led Commonwealth Preference System is a notable illustration of such PTA.

Free Trade Area (FTA)- It exists when two or more countries work together and remove all of their individual tariffs imposed on the rest of the world. The European Free Trade Area (EFTA), which comprises the so-called "outer seven" nations of Austria, Norway, Denmark, Portugal, Sweden, Switzerland, and the United Kingdom, is an instance of a free trade area.

Customs Union - Similar to a free trade area, it eliminates internal tariffs and other trade restrictions among union members. Custom unions are more organized and connected than FTA. (Mannur 2005) When two or more countries abolish all internal tariff barriers and impose single exterior tariff wall to ban the import of all goods from the rest of the world, a custom union is formed. Additionally, a custom union creates a shared trade policy with other countries, such as shared external tariffs. An example is the European Economic Community (EEC).

Common Market- The member countries of the Common Market allowed the free movement of labour and other factors that are related to production, such as capital, in addition to the free movement of goods and services. A single market will eventually develop into a combined (or internal) market if the member countries also remove other, more subtle trade barriers deriving from differences in national policy, such as on product standards or taxation. The European Union serves as an example (EU).

Economic Union - The apex of economic integration is reached when nations establish an economic union. It is an expansion of the common/internal market; in this instance, there is also institutional framework harmonization, which addresses procurement, competition regulation, etc., as well as a significant amount of policy coordination. As a result, when there is sufficient policy coordination to maintain a single currency, the economic union acts as the monetary union's counterpart in practice. An example that combines both is the EU's

Economic and Monetary Union (EMU).

MOTIVES OF REGIONAL TRADE AGREEMENTS:

A government might opt to establish a regional trade agreement for multiple reasons. The first wave of regional trade agreements appeared following the successful founding of the European Union in 1957. The second wave of regionalism that appeared in the 1990s, which sparked the development of RTA, was influenced by a variety of causes. The WTO's unsatisfactory progress and the difficulties of global decision-making are the primary reasons for the sharp increase in regional trade agreements around the world. The primary factors driving the rise of regional trade agreements are outlined in the following list:

The most frequent reason for signing an RTA is probably to gain more access to global markets. Lower tariff barriers make it easier for countries to access the markets of other members. (Lynch 2010) The country's trade preference margin is based on the degree of preferential access offered by an RTA. For instance, light vehicles imported into the US are subject to a 25% tax, whereas light trunks made in the NAFTA countries of Canada and Mexico are not subject to any duties.

To promote investment - Market access between nations expanding also encourages investment. Better access to international markets increases a country's appeal as a location for investments (Lynch, 2010). RTAs have frequently encouraged investment, as seen in the rise in investment in Spain and Portugal following their enlargement of the European Union (EU). RTAs can encourage investment by incorporating special investment designs that provide international investors a sense of security, as well as by enforcing equal treatment for domestic and foreign investors, streamlining the procedure for handling investment disputes, and removing administrative obstacles.

To increase competitiveness in world markets - Regional production methods might boost competition on the global market. Use of the high skill element of manufacturing in industrialised countries and the lower skill portion of production in less developed countries, where salaries are less expensive, is made possible by the regional production strategy. RTAs may improve a company's capacity to "supply worldwide, produce regionally, and sell locally," in other words (Lynch, 2010). For instance, China is very motivated to find reliable sources of inputs for its massive industrial production growth, and regional trade agreements with China are assisting in attaining this objective.

To protect against unfair use of trade remedies - To protect against the unfair application of trade remedies like antidumping, countervailing, and safeguarding is one of the reasons why RTAs are formed. (Lynch, 2010). For instance, President George W. Bush exempted 80 poor nations, as well as Canada and Mexico, who were allies with the US in NAFTA, when he announced safeguard tariffs of up to 30% against steel imports in 2002. Brazilian steel, for instance, was subject to US safeguards, but Mexican and Canadian steel was not. This demonstrates how RTAs can protect against dubious trade remedy usage.

To protect against delayed international liberalization: Promoting liberalization is another justification for the creation of RTAs, particularly when multilateral trade negotiations are sluggish. While we don't know what will happen to these other regional trading blocs (the EU bloc), as 1992 presidential candidate Bill Clinton noted about NAFTA, "we know enough to these other regional trading blocs to our neighbors, both for the positive opportunity and to protect us in the event that other countries become more protectionist." He is not the only one who holds this opinion; Australian Prime Minister John Howard cited the WTO's "Glacial Pace" of liberalization as a fundamental tenet for Australia's pursuit of bilateral free trade deals.

To reinforce internal changes: Sometimes a nation's authorities are aware of the need to liberalize its economy, but they are unable to mobilize the political support necessary to implement these reforms. Regional trade agreements suggest a strategy for altering domestic political support for reform (Lynch, 2010). For instance, the Mexican president Carlos Salinas de Gortari, who put out the idea for NAFTA, had already made great progress toward liberalizing his country's economy. He was quite successful in his attempts to modernize the Mexican economy, but local opposition delayed full liberalization in several sectors, such as textile and apparel. NAFTA was a tool utilized by President Salinas to alter the political landscape. NAFTA established a relationship between increased access to the US textile and clothing market and increasing liberalization of the Mexican textile and apparel sector. Thus, with the aid of NAFTA, Mexico's domestic reform was strengthened (regional trade agreement).

By negotiating regional trade agreements with other nations, governments can strengthen their influence in international discussions. When an RTA is sufficiently integrated and strong, its member nations "can have greater leverage in international negotiations than the countries would have alone" (Lynch, 2010). An RTA can increase a country's strength by establishing institutions or in other talks, but poorer nations are unable to send permanent representatives to the secretariats of significant multilateral organizations like the WTO or other crucial agreements. For smaller and poorer states in particular, it is crucial to unite for increased global influence. They frequently consider such coordination to be essential. We can use the 15 Caribbean CARICOM states as an example. It is occasionally suggested that integration is necessary in order to boost a nation's power in another way. For instance, Africa is divided into 53 countries by 165 borders. In international talks on global commerce or climate change, even a major nation like Nigeria may not be heard. However, when taken as a whole, 53 nations with approximately 1 billion people cannot be disregarded.

To attain economic stability - It has become more common to see emerging countries sign RTAs with other developing countries as a way for the fragile economies to achieve economic stability. Some nations discovered that after establishing an RTA, stability resulted from improved market access and investment. For instance, the more recent members of the EU have had higher levels of economic stability.

To attain additional strategic objectives - In spite of the aforementioned justifications, countries join into RTAs for a variety of different factors. For instance, the US has signed bilateral RTAs throughout the Middle East, and the Middle East Free Trade Agreement was established in 2013. The border effort includes this agreement. In an effort to bring economic liberalization and democracy to the Middle East, the George W. Bush administration announced the US Middle East Initiative (MEPI) in 2002. In addition to economic considerations, the European Union established trade agreements with nations in North Africa and the Middle East for a variety of other reasons.

To promote investment – When market access expands between nations, investment is likewise promoted. Better access to international markets increases a country's appeal as a location for investments (Lynch, 2010). RTAs have frequently encouraged investment, as seen in the rise in investment in Spain and Portugal following their enlargement of the European Union (EU). RTAs can encourage investment by incorporating special investment designs that provide international investors a sense of security, as well as by enforcing equal treatment for domestic and foreign investors, streamlining the procedure for handling investment disputes, and removing administrative obstacles.

Regional manufacturing techniques can boost a country's competitiveness in global markets. Use of the high skill portion of production in developed countries and the lower skill portion of production in less developed countries, where wages are less expensive, is made possible by the regional production strategy. RTAs may increase a company's ability to produce locally, export globally, and sell regionally. (Lynch, 2010). For instance, China is very motivated to find reliable sources of inputs for its massive industrial production growth, and regional trade agreements with China are assisting in attaining this objective.

To avoid the improper use of trade remedies - To protect against the unfair application of trade remedies like antidumping, countervailing, and safeguarding is one of the reasons why RTAs are formed. (Lynch, 2010). For instance, President George W. Bush exempted 80 poor nations, as well as Canada and Mexico, who were allies with the US in NAFTA, when he announced safeguard tariffs of up to 30% against steel imports in 2002. Brazilian steel, for instance, was subject to US safeguards, but Mexican and Canadian steel was not. This demonstrates how RTAs can protect against dubious trade remedy usage.

To guard against a delayed multilateral liberalization: To progress liberalization, particularly while international trade negotiations are slowed down, is another motivation for RTA development. Bill Clinton, a presidential candidate in 1992, made reference to NAFTA when he said that while we are oblivious of the EU trading union, we are aware enough of these other regional trading blocs to safeguard us in the event that other nations turn more protectionist. One of the guiding principles underlying Australia's pursuit of bilateral free trade agreements, according to Australian Prime Minister John Howard, is the WTO's "Glacial Pace" of liberalization.

To firmly establish domestic reforms- Sometimes a nation's leaders are aware of the need to liberalize its economy, but they are unable to build the political support necessary to implement these reforms. Regional trade agreements suggest a strategy for altering domestic political support for reform (Lynch, 2010). For instance, the Mexican president Carlos Salinas de Gortari, who put out the idea for NAFTA, had already made great progress toward liberalizing his country's economy. He was quite successful in his attempts to modernize the Mexican economy, but local opposition delayed full liberalization in several sectors, such as textile and apparel. NAFTA was a tool utilised by President Salinas to alter the political landscape. NAFTA established a relationship between increased access to the US textile and clothing market and increasing liberalisation of the Mexican textile and apparel sector. Thus, with the aid of NAFTA, Mexico's domestic reform was strengthened (regional trade agreement).

Strengthening influence in international negotiations: By creating regional trade agreements with neighboring nations, countries can strengthen their influence internationally. If an RTA is well-connected and powerful, the member countries can influence international talks more than the countries could individually (Lynch, 2010). An RTA can increase a country's strength by establishing institutions or in other talks, but poorer nations are unable to send permanent representatives to the secretariats of significant multilateral organizations like the WTO or other crucial agreements. For smaller and poorer states in particular, it is crucial to unite for increased global influence. They frequently consider such coordination to be essential. We can use the 15 Caribbean CARICOM states as an example. It is occasionally suggested that integration is necessary in order to boost a nation's power in another way. For instance, Africa is divided into 53 countries by 165 borders. In international talks on global commerce or climate change, even a major nation like Nigeria may not be heard. However, when taken as a whole, 53 nations with approximately 1 billion people cannot be disregarded.

To achieve economic stability: It has become more common for developing countries to sign RTAs with other developing nations as a result of the unstable economies' desire to achieve stability through trade agreements. Some nations discovered that after establishing an RTA, stability resulted from improved market access and investment. For instance, the more recent members of the EU have had higher levels of economic stability.

To attain additional strategic objectives - In spite of the aforementioned justifications, countries join into RTAs for a variety of different factors. For instance, the US has signed bilateral RTAs throughout the Middle East, and the Middle East Free Trade Agreement was established in 2013. The border effort includes this agreement. In an effort to bring economic liberalization and democracy to the Middle East, the George W. Bush administration announced the US Middle East Initiative (MEPI) in 2002. In addition to economic considerations, the European Union established trade agreements with nations in North Africa and the Middle East for a variety of other reasons.

CONCLUSION:

Since it grants members of the agreement preferential treatment while denying non-members of the agreement equal treatment, the GATT/Most Favoured Nation (MFN) clause is not included in regional trade agreements. Any such agreement would, therefore, violate the GATT/WTO non-discrimination principle. Regional economic integration agreements are a step in the direction of free trade between various countries. Regional agreements are regarded as an excellent first step toward free trade and are advantageous for LDCs since they help them grow and flourish.

REFERENCES:

Francis Smita. (2009), "ASEAN-India Free Trade Agreement in Goods: Emerging issues in India's changing trade policy strategy" IDEAs-GSEI-ITD Asian Regional Workshop on 'Free Trade Agreements: Towards inclusive trade policies in post crisis Asia', Bangkok

Frankel Jeff & Fellow Senior. (1996), "Regional Trading Blocs" Book Copyright 1995 by The Institute for International Economics, Revised: August 14, 1995 + Sept.1, 1995; Nov.29; Dec. 28, 1995; Jan. 1, 1996 Rev. 2/16/96; 3/27; 4/5, 8, 5/20; ack 6/11+sect.no.; 6/13 irwin, 6/14; /21 p26, /24corn+RWsugg,/25T&F;8/18fn12.

Lynch. A. David. (2010), "Trade and Globalization: An Introduction to Regional Trade Agreements" Rawman and Littlefield Publishers, United Kingdom. ISBN 9780-7425-6690-3. pp. 25

Lynch. A. David. (2010), "Trade and Globalization: An Introduction to Regional Trade Agreements" Rawman and Littlefield Publishers, United Kingdom. ISBN 9780-7425-6690-3.

Mannur, H.G. (2005), "International Trade Policy" pg. 148.

Pal, Parthapratim. (2004), "Regional Trade Agreements in a Multilateral Trade Regime: An Overview", A Survey Report. www.networkideas.org.

Scollay Robert. (2001), "Regional Trade Agreements and Developing Countries: the case of the pacific islands' Preposed FTAs" United Nations Conference on Trade and Development, Policy Issue in International Trade and Commodities Study Series No. 10.

Suominen, Kati. (2009), “The Changing Anatomy of Regional Trade Agreements in East Asia” Journal of East Asian Studies, Vol. 9, No. 1 (JANUARY-APRIL 2009), pp. 29-56 http://www.jstor.org/stable/23418682 Accessed: 12-10-2015 09:10 UTC.

The RTA database. (2016), WTO’s official site www.wto.ic.in. The detail of these rules can be seen on this site.