Regional Trade Agreements (RTA)

Meaning

- Regional trading agreements refer to a treaty that is signed by two or more countries to encourage the free movement of goods and services across the borders of its members.
- The agreement comes with internal rules that member countries follow among themselves.
- When dealing with non-member countries, there are external rules in place that the members adhere to.

Type of RTA

1- Preferential Trade Agreement (PTA)

- In PTA, a countries would offer tariff reductions, though perhaps not eliminations, to a set of partner countries in some product categories.

- Example :- if a country’s low tariff on Laptop imports, to 5 percent, then it must charge 5 percent on imports from all G-20 (21) members countries. The country is free to charge a higher tariff on imports from non-WTO members, however.

2. Free Trade Area

- A free trade area (FTA) occurs when a group of countries agrees to eliminate tariffs among themselves but maintain their own external tariff on imports from the rest of the world.
- The North American Free Trade Agreement (NAFTA) is an example of an FTA.
- When NAFTA is fully implemented, tariffs of automobile imports between the United States and Mexico will be zero. However, Mexico may continue to set a different tariff than the United States on automobile imports from non-NAFTA countries.

3. Customs Union

- A customs union occurs when a group of countries agrees to eliminate tariffs among themselves and set a common external tariff on imports from the rest of the world.

- The European Union (EU) represents such an arrangement.

- A customs union avoids the problem of developing complicated rules of origin but introduces the problem of policy coordination.

4. Common Market

- A common market establishes free trade in goods and services, sets common external tariffs among members, and also allows for the free mobility of capital and labor across countries.
- The EU was established as a common market by the Treaty of Rome in 1957, although it took a long time for the transition to take place.
- Today, EU citizens have a common passport, can work in any EU member country, and can invest throughout the union without restriction.

5. Economic Union

- An economic union typically will maintain free trade in goods and services, set common external tariffs among members, allow the free mobility of capital and labor, and also relegate some fiscal spending responsibilities to a supranational agency.
- The EU's Common Agriculture Policy (CAP) is an example of a type of fiscal coordination indicative of an economic union.

6. Monetary Union

- A monetary union establishes a common currency among a group of countries. This involves the formation of a central monetary authority that will determine monetary policy for the entire group.
- The Maastricht treaty, signed by EU members in 1992, proposed the implementation of a single European currency (the Euro) by 1999.

Benefits of Regional Trade Agreements

1. **Boosts Economic Growth**: - Member countries benefit from trade agreements, particularly in the form of generation of more job opportunities, lower unemployment rates, and market expansions.
2. **Volume of Trade**: - Businesses in member countries enjoy greater incentives to trade in new markets, thanks to attractive trading conditions due to the policies included in the agreements.
3. **Quality and Variety of Goods**: - Trade agreements open a lot of doors for businesses. As they gain access to new markets, the competition becomes more intense. It also leads to more variety for consumers. When there is a wide variety of high-quality products, businesses can improve customer satisfaction.

Benefits of RTA

4. RTAs can help create jobs and improve living standards

5. They can also help promote peace and stability in the region

6. RTAs can be a way for countries to cooperate on issues such as environmental protection and the fight against terrorism

Disadvantages of RTA

1. RTAs can lead to trade diversion, which means that countries may start importing goods from other members of the RTA instead of from the most efficient suppliers outside the RTA
2. RTAs can also lead to higher prices for consumers since competition is reduced and companies may have less incentive to keep prices low
3. RTAs can create a “Noodle Bowl Effect” effect, where different agreements overlap and create confusion for businesses trying to trade goods and services

- In 2000, only 3 FTAs were in force, nine years later, 37 FTAs were in force and 72 under negotiations. As a result, both firms and governments, started to worry about the burden imposed by the Asian trade environment's growing complication. This phenomenon was nicknamed "The Noodle Bowl Effect" by several newspapers and academics to highlight its endemic Asian nature.

4. RTAs can also lead to regulatory divergence, which means that the regulations of different countries within an RTA may start to diverge over time, creating more red tape and complexity for businesses.

5. RTAs can reduce global trade liberalization, if they are used as a way to “backdoor” protectionist measures that would not be allowed under the rules of the World Trade Organization (WTO).

RTA in India

Names of RTAs	**Export in 2011**	**Export in 2021**
India-ASEAN FTAIndia-Singapore CECAIndia-Malaysia CECAIndia-Thailand FTA - Early Harvest Scheme (EHS)	34.5	40.6
India-Japan CEPA	5.6	6.1
India-South Korea CEPA	4.6	7.0
Agreement on SAFTA India-Sri Lanka FTAIndia-Nepal Treaty of TradeIndia-Bhutan Agreement on Trade, Commerce and Transit	13.0	31.6
India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)	implemented only w.e.f. 10.04.2021.	
India-UAE CEPA	implemented only w.e.f. 01.05.2022.	
India-Australia Economic Cooperation and Trade Agreement (Ind-Aus ECTA)	Tsigned on 02.04.2022, but not yet implemented	