The Future of Free Trade

(This editorial is based on the article “The future of free trade” which appears in Livemint on 1st January 2019.)

The future of ‘free trade’ world over is in jeopardy or at least it is changing (for the better or worse we don’t know yet). In this editorial analysis, we’ll see some interesting aspects of the global free trade regime and its predilections towards a new world order.

In 2018, it has been considered that more than any other policy area, trade was “disrupted”.

Trade - which has been pale, routine in previous years, now dominated front-page headlines, magazine covers etc. It became sort of a household term in political debates across the world.

Constituencies that have traditionally opposed free-trade agreements (FTAs) are now cheering their virtues, and countries not known for their free-trade sensibilities—including China, Russia, and France—are nominating themselves as the defenders of the global trade system.

What is Free Trade Agreements?

- FTAs are arrangements between two or more countries or trading blocs that primarily agree to reduce or eliminate customs tariff and non-tariff barriers on substantial trade between them.
- FTAs, normally cover trade in goods (such as agricultural or industrial products) or trade in services (such as banking, construction, trading etc.).
- FTAs can also cover other areas such as intellectual property rights (IPRs), investment, government procurement, and competition policy, etc.

Current Situation with FTAs

- **President Donald Trump pulled the US out of the 12-country Trans-Pacific Partnership (TPP), but the remaining 11 signatories have implemented the bulk of the agreement on their own while leaving the door open for the US to rejoin in the future.** More countries have shown an interest in joining, suggesting that the TPP could eventually extend well beyond what was originally envisioned. [Perhaps it will expand in the lines of a new GATT system]
- The updated North American Free Trade Agreement—now to be called the United States-Mexico-Canada Agreement —is largely based on the TPP template, which already included Canada and Mexico, along with some noteworthy additions.
- The European Union (EU) is implementing FTAs with Canada, Singapore, Vietnam and Japan, and pursuing deals with Australia, Mexico, New Zealand, the Association of Southeast Asian Nations, Mercosur (Mercosur, officially Southern Common Market is a South American trade bloc) and others.
- The Pacific Alliance continues to expand trade and other partnerships in Latin America.

- The Regional Comprehensive Economic Partnership (RCEP) is proceeding apace in the Asia-Pacific region. And the African Union has made more progress toward implementing the Continental Free Trade Agreement (CFTA).

Future of FTAs

- **By surrendering its global leadership role, the US has lost the trust of its closest allies and partners and handed a gift to its adversaries.**
- **In this scenario, the EU or China might supplant the US as the global rule-maker, or there will be no rule-maker, and the international order will be governed by drift (i.e without a leader).** Other countries might well imitate the US by pursuing unilateral action and upholding their international obligations only when it suits them. (the US was infamous for using trade to pursue geopolitical ambitions)
- **It is too early to say which scenario will play out.** But one thing is clear: Nationalism, populism, nativism, and protectionism are on the rise.
- Economic insecurities, as well as a growing sense of lost sovereignty, have contributed to an unprecedented degree of political polarization, and not just in the US.
- From European countries beset by growth in support for fringe parties to emerging economies mired in corruption, governments everywhere seem to be more inwardly focused and less capable than ever of demonstrating bold leadership—and precisely when it is most needed to address the disruptive effects of rapid technological and economic change.
- **Doing well by doing good can't be just a tagline.** It must be a guiding business philosophy, backed by the recognition that the private sector needs a healthy political and economic environment to thrive and must take action to secure it.
- In recent decades, public trust in government, the press, corporations, and other leading institutions has declined sharply. If business leaders continue to ignore the health of their operating environment—or assume that fixing it is someone else's problem—they are risking even more deglobalization, uncertainty, and instability in the years ahead.

India and FTAs

- India's exports to FTA countries has not outperformed overall export growth or exports to the rest of the world.
- FTAs have led to increased imports and exports, although the former has been greater.
- India's trade deficit with ASEAN, Korea, and Japan has widened post-FTAs
- According to Economic Survey 2016-17, FTAs have had a bigger impact on metals on the importing side and textiles on the exporting side. A 10% percent reduction in FTA tariffs for metals increases imports by 1.4 %
- India's exports are much more responsive to income changes as compared to price changes and thus a tariff reduction/elimination does not boost exports significantly.

Way Forward

- Economic growth has been the defining feature of a historic global success story spanning the past 75 years. Even with its limitations, globalization has lifted more than one billion people out of poverty and delivered unprecedented improvements in virtually all areas of human development. But the job is not done. To prevent backsliding, the focus must shift from aggregate growth to inclusive growth. The gains from growth must accrue not just to those at the top, but to those at all income levels, and not just to global corporations, but to small and medium-size businesses as well.
- **Nationalism, populism, nativism, and protectionism exploit people's sense of being left behind and excluded from the system. That is why we need to focus on ensuring universal inclusion in the economic networks that allow individuals and families to achieve financial security and pursue opportunities for betterment.**
- Finally, with a leadership vacuum at the international level and paralysis at the national level, it has become all the more necessary for private sector actors to step up, not out of the goodness of their hearts, but in defense of their own interests.
- **They also need to be thinking about the long-term and about the economic and political**

environments in which they operate. Beyond corporate social responsibility and philanthropy, that means developing commercially sustainable business models that also "serve a social purpose."

Read More: A Note on Free Trade Agreements and Their Costs

DRISHTI INPUT

United States-Mexico-Canada Agreement

- Under the leadership of President Donald J. Trump, the United States has reached an agreement with Mexico and Canada in the renegotiation of the North American Free Trade Agreement (NAFTA).
- The new United States-Mexico-Canada Agreement (USMCA) is considered to be a mutually beneficial win for North American workers, farmers, ranchers, and businesses.
- When finalized and implemented, the agreement will create a more balanced, reciprocal trade that supports high-paying jobs for Americans and grows the North American economy.

The Pacific Alliance

- The Pacific Alliance is a Latin American trade bloc, formed by Chile, Colombia, Mexico and Peru, which all border the Pacific Ocean.
- These countries have come together to form an area of integration with the purpose to ensure complete freedom in the movement of goods, services, capital, and people.

Continental Free Trade Agreement

- The African Continental Free Trade Agreement is a trade agreement between 49 African Union member states, with the goal of creating a single market followed by free movement and a single-currency union.

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