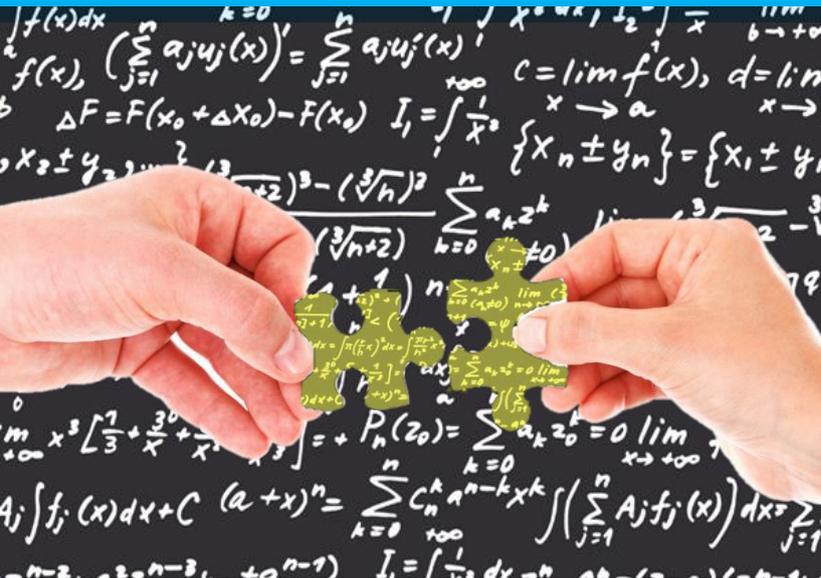




Relative benefits/losses of India aligning with RCEP and BRICS countries under the conjecture of free trade area in goods



Somesh K. Mathur

Rahul Arora

Monika Bhardwaj

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

Working Paper

NO. 160 | 2016

The Asia-Pacific Research and Training Network on Trade (ARTNeT) is an open regional network of research and academic institutions specializing in international trade policy and facilitation issues. AFD, UNCTAD, UNDP, ESCAP and WTO, as core network partners, provide substantive and/or financial support to the network. The Trade, Investment and Innovation Division of ESCAP, the regional branch of the United Nations for Asia and the Pacific, provides the Secretariat of the network and a direct regional link to trade policymakers and other international organizations.

The ARTNeT Working Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about trade issues. An objective of the series is to publish the findings quickly, even if the presentations are less than fully polished. ARTNeT Working Papers are available online at www.artnetontrade.org. All material in the Working Papers may be freely quoted or reprinted, but acknowledgment is requested, together with a copy of the publication containing the quotation or reprint. The use of the Working Papers for any commercial purpose, including resale, is prohibited.

Disclaimer:

The designations employed and the presentation of the material in this Working Paper do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries. Where the designation “country or area” appears, it covers countries, territories, cities or areas. Bibliographical and other references have, wherever possible, been verified. The United Nations bears no responsibility for the availability or functioning of URLs. The views expressed in this publication are those of the author(s) and do not necessarily reflect the views of the United Nations. The opinions, figures and estimates set forth in this publication are the responsibility of the author(s), and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations. Any errors are the responsibility of the author(s). The mention of firm names and commercial products does not imply the endorsement of the United Nations.



Relative benefits/losses of India aligning with RCEP and BRICS countries under the conjecture of free trade area in goods

Somesh K. Mathur, Rahul Arora, and Monika Bhardwaj*

Please cite this paper as: Somesh K. Mathur, Rahul Arora, and Monika Bhardwaj (2016), “Relative benefits/losses of India aligning with RCEP and BRICS countries under the conjecture of free trade area in goods”, ARTNeT Working Paper Series No. 160, 2016, Bangkok, ESCAP.

Available at <http://artnet.unescap.org>

*Somesh K. Mathur is Professor of Economics in the Department of Humanities and Social Sciences, Indian Institute of Technology Kanpur, India; Rahul Arora is a Senior Ph.D. Student in Economics in the Department of Humanities & Social Sciences, IIT Kanpur, India; and Monika Bhardwaj is the former undergraduate student of Economics from the same institute. The authors are grateful to the Rainer Lanz, WTO and Badri Narayanan G., Purdue University for their constructive comments to update the draft version of the paper and to the ARTNeT secretariat for the technical support in issuing this paper. They also acknowledge the Head, HSS, IIT Kanpur for providing congenial research environment at the Departmental level. Any other errors that remain are the sole responsibility of the authors. The authors' emails are: skmathur@iitk.ac.in; arahul@iitk.ac.in; and rahul_pse2006@yahoo.co.in.

Abstract

The present study works out the relative benefits/losses of India aligning with RCEP and BRICS member countries under the conjecture of free trade area in good trade only. The study uses partial (SMART model) and general equilibrium (GTAP model) tools for this assessment. The main focus in the study is to compare the benefits/losses to Indian economy associated with both policy scenarios. The results reveal that it would be beneficial for India to align with other RCEP member countries under the policy of free trade area in goods trade. If India wants to join BRICS FTA in the near future then it must negotiate for the entry of its own specialized products into their markets and in reciprocity, it should allow the entry of their specialized products in to the domestic market. The results are in favor to make free trade area between RCEP countries which is more beneficial for India in comparison to make BRICS FTA.

Keywords: RCEP, BRICS, SMART, GTAP

JEL Classifications: F13, F14, F15

Table of Contents

| | |
|--|----|
| Abstract..... | i |
| 1. Introduction | 1 |
| 2. Tariff and trade profile | 3 |
| 2.1 Tariff profile of BRICS and RCEP members | 4 |
| 2.2 Trade profile | 6 |
| 3. Sources of data, data aggregations and simulation scenarios | 12 |
| 3.1 Sources of data and data aggregations | 12 |
| 3.2 Simulation scenarios | 13 |
| 4. Simulation results..... | 15 |
| 4.1 Single market partial equilibrium tool (SMART)..... | 15 |
| 4.2 GTAP model: A general equilibrium tool | 20 |
| 5. Conclusion | 29 |
| References | 30 |
| Appendix tables | 32 |

Table of Tables

| | |
|--|----|
| Table 1: Indicators of level of protection | 5 |
| Table 2: Value of similarity index in merchandise trade structures..... | 7 |
| Table 3: Value of trade complementarity index..... | 8 |
| Table 4: Value of revealed comparative advantage index..... | 10 |
| Table 5: Value of trade intensity index of India with RCEP and BRICS grouping | 11 |
| Table 6: Simulation A - Trade effect of India's aligning with other RCEP countries (USD million)..... | 16 |
| Table 7: Simulation E - Trade effect of India's aligning with other RCEP countries (USD million)..... | 17 |
| Table 8: Simulation B - Trade effect of India's aligning with other BRICS countries (USD million)..... | 18 |
| Table 9: Simulation F - Trade effect of India's aligning with other BRICS countries (USD million)..... | 20 |
| Table 10: Total welfare effect of each member of two groupings (USD million)..... | 22 |
| Table 11: Percentage change in GDP quantity index..... | 24 |
| Table 12: Percentage change in sectoral output | 25 |
| Table 13: Percentage change in aggregate imports (qim)..... | 26 |
| Table 14: Percentage change in aggregate export (qxw)..... | 27 |
| Table 15: Change in trade balance of India (USD million)..... | 28 |

1. Introduction

The policy of regional trading agreements (RTAs) is considered as building block towards multilateral trade liberalization. Almost all countries in the world today are party to, or are in the process of negotiating, at least one RTA. Asia has also seen a large number of trading agreements since the year 2000. In Asia, India also has an active participation in various trading arrangements emerging all over the world. As per the Asian Development Bank (ADB) FTA database, India is a part of 13 such existing arrangements (signed and in effect agreements), and in process to join 15 more such arrangements in the near future¹. In the whole world, the Asian region is in the limelight related to these types of policy arrangements. The emergence of mega trade deals including various members from Asian region is one of the main reasons behind this. Among the three main existing mega trade deals (TPP, TTIP, & RCEP), two (TPP and RCEP) are mainly concerned with the Asian region due to inclusion of many Asian powers in them as a member countries. The word mega has been attached to these trade deals because of the inclusion of many and important countries of the world. Also, these trade blocs individually cover significant portion of world GDP, trade and population.

The emergence of TPP in the Asia-Pacific region with its members from North and South America raised concerns for the non-member countries of Asian region. Among the non-members, India and China are the main economies in Asian region whose trade share within Asia is more than 50 percent. The exclusion of India and China from TPP emerged the serious concerns among the policy makers of both the countries because of expected diversion of their trade towards the member countries of TPP from North and South American region. Further, the emergence of TTIP between World's biggest economy (USA) and Largest trading bloc (EU) again raises the concerns among various producers in the developing countries. Ongoing discussions on these mega trade blocs termed RCEP a savior who will save the developing economies of Asia, particularly China and India, from the negative effects of other two mega blocs (TTIP and TPP).

¹ For 14 such arrangements, negotiations have been launched and for one such arrangement (India-GCC FTA), negotiations have been finalized and signed by all the member countries. For more information, see <https://aric.adb.org/fta-country>.

In particular, India is also taking an active participation in the ongoing negotiations of RCEP and all member countries are expecting to conclude these negotiations by the end of this year. At the same time, India is also looking outside Asia-Pacific region and exploring the possibilities of feasible trade agreements with other countries. The list is very long, as it includes many bilateral, multilateral and plurilateral existing and proposed trade agreements. In this long list of trade agreements, talks are also going on between member countries of BRICS², an association of five emerging and diverse economies, to make BRICS free trade zone. Those five countries are: Brazil, Russian Federation, India, China, and South Africa. The members of BRICS association meet every year in an annual summit since year 2009. Seven such summits have been held so far and the countries are planning to hold the next summit in India in this year. In these summits, many suggestions have come up to plan a free trade agreement between the member economies. If successful, then this FTA will also come under the category of mega trade blocs.³ It is expected that this trade deal would also provide many benefits to Indian economy and contribute positively to fight against the negative effects of other mega trade deals of which India is not a member country.

Many recent studies have evaluated the impact of joining these mega trade blocs by India and found these policy options very advantageous. De Castro (2012) found that BRICS countries would show the positive result for the establishment of PTA when involved in bilateral trade between BRICS-EU using various trade indicators. Sharma and Kallummal (2012) also investigated the free trade agreement (FTA) using the GTAP model and found that the overall effect of BRICS FTA would be positive for India. Further, extending the FTA scenario, Sharma (2012) evaluated food and agricultural trade liberalization for BRICS countries with two growing nations of Republic of Korea and Mexico to see the economic and welfare impacts and found that Brazil and China are the main gainers with this liberalization.

Further, in the recent studies on assessment of RCEP, a proposed mega trade bloc, Li *et al.*

预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_2497

