

TRADE LINKAGE BETWEEN INDIA AND NAFTA: A DESCRIPTIVE STUDY

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ABSTRACT

The study is an attempt to analyze the significance of trade with NAFTA and its role in India's trade basket. The growing magnitude of foreign exchange inflow fueled the speed of industrialization and capitalization among the countries. Nations acclaimed the need of foreign trade in their significant economic development. With a view of such acknowledgment by countries the current study was carried out taking India as an emerging entity in world trade with one of the biggest economic group i.e. NAFTA. The study examined the trade ratio of NAFTA with India and explained some possible reasons. The research was conducted over statistical data gathered from legitimate sources to justify the reliability of results.

Key words: Regional groupings, International Relations, Foreign trade regime, Export trend

INTRODUCTION

Implementation of NAFTA began on Jan 1st, 1994. The basic aim of this agreement was to remove maximum possible barriers to trade and investment among the Mexico, Canada and The United States of America. All non-tariff barriers between U.S, Canada and Mexico was eliminated immediately for the periods of 5 to 15 years under NAFTA related to agriculture. The United States, Canada and Mexico were the countries who sign The North American Free Trade Agreement is basically for creating a trilateral trade bloc in North America. NAFTA surpasses the Canada - United States Free Trade Agreement between the U.S. and Canada. The agreement came into force on January 1, 1994 and It is the largest Trade block in the world in terms of combined GDP of its members. The main objective of NAFTA was to eliminate trade barriers and investment barriers between Canada, Mexico and The United States. The tariffs and restrictions were immediately eliminated After NAFTA's establishment on 1 January 1994 most US-Canada trade was already duty free. NAFTA also seeks to eliminate non-tariff trade barriers.

NAFTA's Economic Impact

It is difficult to enumerate NAFTA's effect very accurately, there are many problems involved between NAFTA's implementation. Further, it is impossible to know the exact level to which trade policy have liberalized even without NAFTA. Two experts at the Peterson Institute for International Economics and the authors of NAFTA *Gary Clyde* and *Jeffrey J. Schott*, stated that on a basic level, NAFTA's impact on North American companies is clear. "NAFTA was designed to promote economic growth by spurring competition in domestic markets and promoting investment from both domestic and foreign sources," they write. "It has worked. North American firms are now more efficient and productive. They have restructured to take advantage of economies of scale in production and intra-industry specialization."

Trade experts, *C. Parr Rosson, III*, *C. Ford Runge*, and *Kirby S. Moulton*, suggested that the idea of trade blocs is relatively new in North America, but contends similar arrangements when viewed from a long-term perspective it have shown consistent gains elsewhere in the world. The report outlines different forms of "preferential trading arrangements," from free trade deals like NAFTA to more limited customs unions and economic unions, which have been successful in parts of Europe. The report notes that preferential trading arrangements can actually divert trade in the short-term--and can cause labour-market disruptions that are painful to some workers--but also "can be expected to have major long-term benefits."

India's Trade Relation with NAFTA

Indo-Mexican Economic Trade Relation

- **Bilateral Trade Agreement:**
- Indo-Mexican trade has been growing at a fairly fast rate. With a total export figure of US \$ 288 million in the year 2008, Mexico was the largest destination for Indian exports in Latin America in that year. Despite the current economic slowdown, Indian exports to Mexico have gone up to 36% in 2009, touching a figure of US \$ 392 million. If this trend continues, as expected, Indian exports to Mexico should cross half a billion mark this year.
- **The Thrust Areas for Future Growth:** The thrust areas for future growth are chemicals & pharmaceuticals, engineering, goods with special emphasis on transport and power equipment, textiles, IT & software. From the Mexican side, the potential areas are petroleum, petro-chemicals, non-ferrous minerals, engineering goods & processed food.
- **Without Local-Value Addition, Potential is Limited:** While exports may continue to grow in consonance with the general growth trends, Mexico's real potential lies in the possibility of greater market access to entire NAFTA & other FTA partners. This benefit could occur only through joint ventures & investments. The mission has been trying to estimate the Indian business.

However, the response has not been encouraging so far through the ITO/NRI business community has better realised this. Investment in Mexico by people of Indian origin for the period 2000-2006 amounted to U.S \$ 1600 Million.

- **Bilateral Institutional Support:** The EXIM BANK extended a unilateral line of credit for U.S \$10 million to their Mexican counterpart benevolent for promoting bilateral trade /economic relationship. This should create greater confidence amongst the Indian business community to explore joint venture & investment possibilities in Mexico.

Indo - U.S. Trade Relation

In recent years India has made progress in expanding their investment base in the United States of America along with this major US companies have entered the Indian market like AT&T and Qualcomm. Indian telecom companies will provide market information about products and services, administrative initiatives to the US suppliers. In recent years India has also looking forward in expanding their investment base in the United States of America.

Huge number of people of Indian origin residing in the US is also another important aspect of India-US economic relations. These people according to some surveys conducted in the US, contribute a lot to US economy and are among the most highly educated class in America. Relaxation in Visa norms by the US administration is considered as a vital step to boost the existing relations between the two countries.

The trade between the United States and India has risen sharply in recent years. In terms of India's major trading partners, USA continues to lead. However, India holds 18th Position in US export and export and 10th in US imports. India and The United States of America are making efforts to strengthen their bilateral economic relations by investing in Agriculture and Infrastructure. Signing of "India-US Economic Dialogue" by Indian Prime Minister Mr. Atal Bihari Vajpayee and US President Mr. Bill Clinton in 2003 was aimed at deepening the Indo-American Corporation through regular dialogue and engagement.

India-Canada Trade Relations

India Canada trade relations have increased tremendously in spite of the fact that Canada was one of the founder members of NAFTA while India was not. Both countries have shared a pleasant and dynamic trading relationship right from the independence of India. Trade relation between India and Canada was declined in the year 1970 due to India's Peaceful Nuclear Explosion, but it has picked up in the 1990s.

Since 1997, Canada and other developed nations started focusing on India in a big way, as a potential market after the financial crisis in South East Asia. But after successful conduction of nuclear tests in 1998, Canada once again went on an alert as far as its trading relations with India were concerned.

RATIONALE OF THE STUDY

India's need for earning more foreign exchange to meet economic objectives of their five years' policy and to better cope with forex demand in and out of the country. India's trade share in international trade is continuously growing at highest pace but more towards imports of commodity rather exporting high quality goods. Hence, it is important to study various sources of foreign funds from where country can fulfil its foreign exchange needs. India is an active participant in international market since long back and considerably performing well in bilateral as well as multilateral trade. But, it has been observed that India's need for foreign exchange is growing rapidly to meet its objectives, therefore, the current study has been taken into consideration to learn about various potential sources of foreign exchange to cope with country's demand. From the available literature reviews the study has reached up to a decision to explore more knowledge about the business opportunity with one of the world's largest and potential economic union i.e. NAFTA. The economic integration of three major economies can bring ultimate opportunity for Asian nations specifically for India.

RESEARCH METHODOLOGY

a) The Study

The study is descriptive and analytical in nature that provides insights into, and an understanding of the concepts related to trade with economic union and their positive trade aspects. The study has analyzed the trade potential of foreign market to Indian organization and forecast the trade future of Indian firms.

The study is mainly based upon secondary data. For this empirical research work, 'Survey' method is chosen that systematically gather information from the respondents.

b) The Sample

For this research, a sample size of 10 years of export data is taken from the well known and recognized sources (Indian official sites). Sample data is resented in US dollars.

c) The Tools

For Data Collection

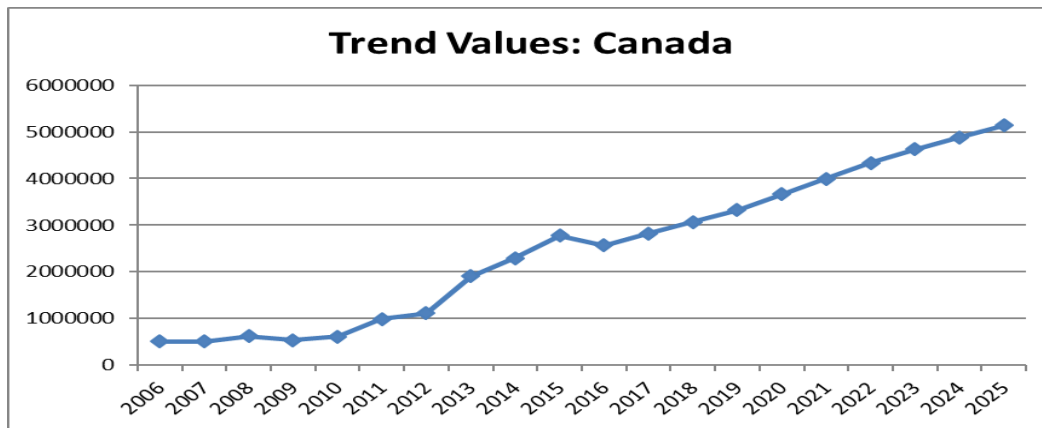
Secondary sources such as Indian foreign trade official web sites, data bank, literatures, trade reports etc. is used for collecting data.

For Data Analysis-

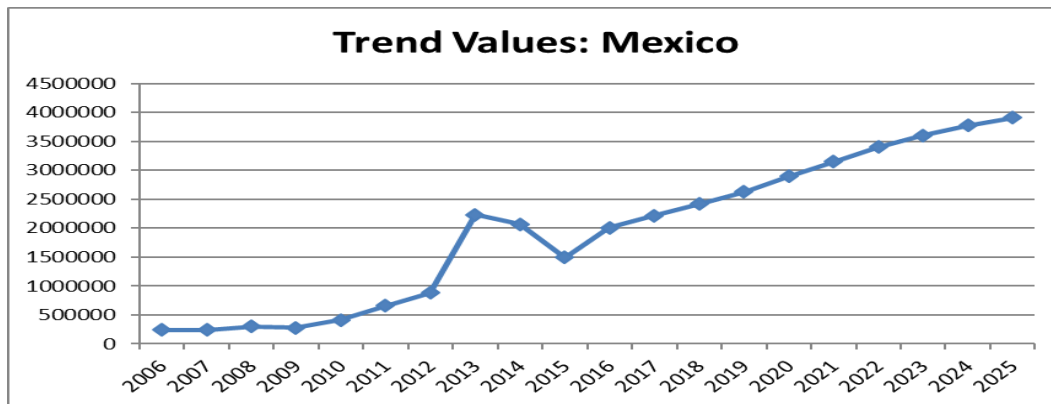
The analysis of collected data was carried out using MS-Excel where 'Trend Analysis' was conducted and output of data was displayed using trend charts.

DATA ANALYSIS AND RESULT INTERPRETATION

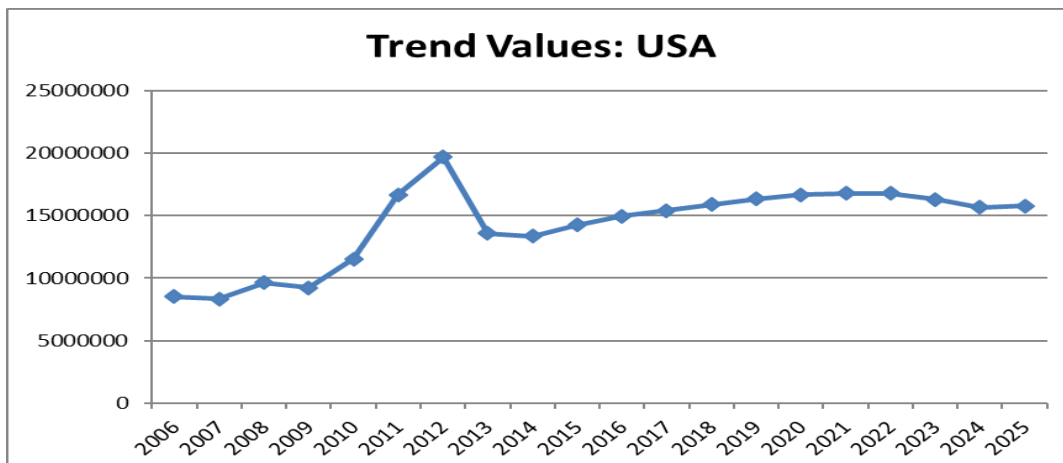
Trend Analysis



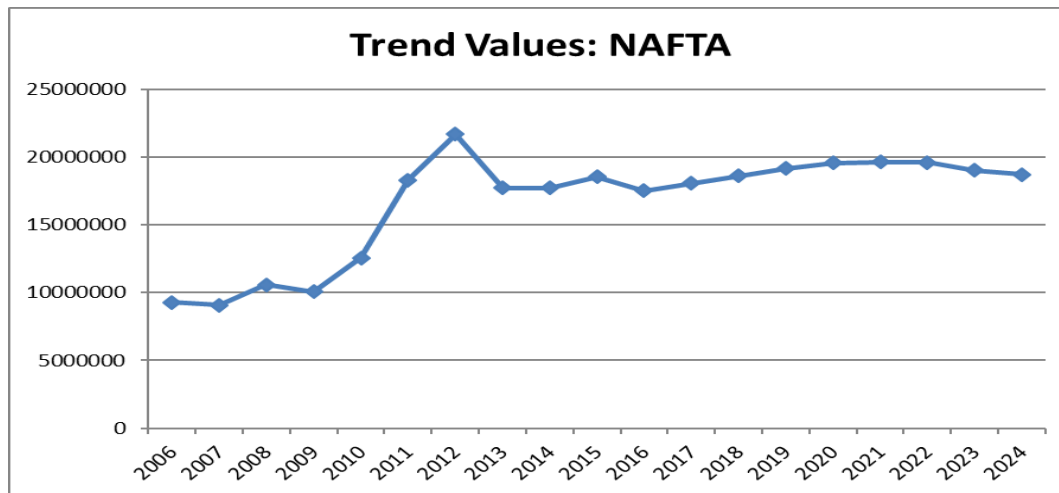
Graph: 1



Graph: 2



Graph: 3



Graph 4

According to the above graphical representation of data through trend analysis the study estimates the positive trade behaviour of the nation. India will prosper in its export basket by trade with NAFTA in the coming years. The data shows downward trend in the year 2013 but from their onwards it shows a reasonable growth in exports but if we compare all three nations then trade with Canada will affect less in comparison to United Nations and Mexico because Canada holds the least fluctuations in the trend analysis. The analysis also describes the consistency in export performance that may result in better BOP position and expanding India's trade into global markets.

FINDINGS

The study observed few threads in trade with NAFTA like:

- Problem of logistics
- Problem of infrastructure
- Problem of legal system
- Problem of language

Problem of Logistics

During the reviews of available literatures, the study found that international logistics is one among the considerable thread to foreign trade. It is because the distance between India and NAFTA countries is comparatively more that take long duration to reach the export cargo at destination. Also, the number of logistics companies and their frequency on that route is found limited that severally affects Indian exports. Due to long distance variety of exportable products couldn't be

sending via sea route because quality may be degraded or compromised out of longest journey. Many trade deals were found unexecuted because of high quoted export price, it is because logistical expense, marine insurance expense and other expense are found more in case of export to NAFTA than any other nation.

Problem of Infrastructure

The study also observed the problem of infrastructural development in both the nation affect the trade in many ways. India has transformed itself over a period of time in many sector including telecommunication, technology, manufacturing, services etc. But still India has limited number of deep sea ports where it can handle big cargo vessels with high tech equipment. Lack of high tech infrastructure leads India to make the deal in break bulk which results in increased cost thus less competitive at international market.

Problem of Legal System

Further it is found that every country has its own legal system and sometimes it affects trade too. Indian exporters and importers are facing problem in understanding legal system of NAFTA and European Countries because of strict and different laws for different commodities, even though they wanted to export/import their product/commodity to these countries/region but they may not aware of NAFTA's legal system. There should be some kind of training and knowledge provide to the farmers/manufacturers/traders by the government to understand legal system of different countries.

Problem of Language

Another but not the least that the country is facing the problem of language; as different countries have different language & the host country people may or may not know the language. As per different and various literatures we can say that earlier Indian exporters/importers were suffering from the language barrier but now a days scenario has been changed and India considered as one of the biggest English speaking county and some internationally used terms were initiated by the international chamber of commerce (like INCO terms which recognized as standard in international trade terms used in trade) for reducing language barriers among countries.

RECOMMENDATIONS

Mutual understanding

- The first and the important suggestion in the field of improvement of India in NAFTA trade is that among the country's government as well as importer and exporter should have a mutual understanding which helps them in confusion free trade avoiding misunderstanding. Both country's government & related trading

parties should have regular trade meetings to consult about their trade facts. It can be monthly, quarterly or yearly.

- It results in liberal and easy trade between the countries so both have liberal trade policy, so that the exports as well as imports can work successfully. Countries must seek for alternatives for revenue generation and controlling foreign competition other than applying heavy duties and taxes on foreign trade. If a country wants to enter into an overseas market easily or freely then it has to open market for host country. These offers to free trade will help both the countries in the free market trade. Free trade will not only bring prosperity into relations but also will open the doors for future learning and growth.
- NAFTA members & Indian government should enter into more and more agreements so that export and import find it favorable to India's foreign trade. India must enter into trade agreements whether it is bilateral or multilateral. Agreement should be based on long term profitable trade relation.

CONCLUSION

The North American Free Trade Agreement (NAFTA) was signed in 1993, the rise in the U.S. trade deficit with Canada and Mexico caused the shift of production that supported 879,280 U.S. jobs. Most of those lost jobs were high-paid and the employees were held good positions in manufacturing industries, and the loss of these jobs is just the most visible highlight of NAFTA's impact on the U.S. economy. NAFTA is a free trade as well as investment agreement which provide investors with a unique set of guarantees planned to increase foreign direct investment in Mexico and Canada. It allowed the movement of factories from the United States to Canada and Mexico and most of these jobs were high-wage positions in manufacturing industries.

Advocates of new trade agreements built on North American Free Trade Agreement (NAFTA) such as the proposed Free Trade Agreement of the Americas (FTAA), have frequently suggested that such deals create more jobs and raise incomes in the United States. These claims are purely based on the positive 'export effects' (effects of exports), ignoring the negative 'import effects' (effects of imports). Such arguments are the efforts to hide the costs of new trade deals in order to increase the stated benefits. The issues with these benefits are that they misrepresent the actual effects of trade on the economy of NAFTA. Jobs are created as well as destroyed by trade.

Increases in exports from The United States of America, Mexico and Canada tend to create jobs for respected country, but increases in imports tend to reduce jobs by moving goods that otherwise would have been made in the Mexico, Canada or United States by domestic workers. Ignoring imports and counting only exports is like balancing a check book by counting only deposits but not withdrawals.

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Annexure

Year	CANADA	MEXICO	U S A	Total
2006	502450.46	242437.53	8536848.54	9281736.53
2007	509400.52	238204.69	8338806.93	9086412.14
2008	624678.79	301051.91	9645841.97	10571572.67
2009	532057.94	281108.28	9241651.34	10054817.56
2010	613988.55	415448.69	11519450.49	12548887.73
2011	992373.57	657845.47	16645541.98	18295761.02
2012	1107855.89	885902.49	19672503.28	21666261.66
2013	1902983.03	2235302.49	13561345.55	17699631.08
2014	2296607.16	2071679.82	13342060.28	17710347.27
2015	2779277.49	1490506.72	14264621.37	18534405.58
Future Estimation of Exports to NAFTA				
2016	2569473.667	2011163.833	14961607.86	17518732.51
2017	2820983.909	2216475.655	15413378.9	18059414.18
2018	3072494.15	2421787.478	15865149.93	18600095.85
2019	3324004.391	2627099.3	16316920.97	19140777.52
2020	3661683.711	2895016.886	16679406.44	19552737.23
2021	3996079.604	3152624.549	16793137.92	19645025.34
2022	4334293.779	3401220.063	16777889.2	19590598.86
2023	4629092.889	3604867.356	16281728.23	19031397.27
2024	4884115.464	3772140.823	15678387.96	18720999.11
2025	5135945.784	3913098.123	15778879.21	18858853.49

Source: Department of Commerce, India