Dossier on Preferential Trade Agreements

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1. Pakistan, Afghanistan to ink new trade agreement

Pakistan and Afghanistan are expected to enter into a new trade and economic cooperation mechanism during the official visit of the Pakistan’s President to Afghanistan on January 7, 2009, according to official sources. A landlocked country, Afghanistan is dependent upon transit countries for its foreign trade and Pakistan represents its main access to a seaport. At the same time Afghanistan, due to its strategic geopolitical position, has the potential to provide Pakistan with direct routes to the Central Asia Region (CAR) as well as to be a regional hub for trade and transit between Central and South Asia and the Middle East and China -- a role which the country has played historically.

The tension between the two countries has so far prevented them from finalising cooperation deals for promotion of trade. While Pakistan is interested in getting land route transit facility from Kabul to market its products to Central Asian Republics (CARs), Afghanistan would benefit through the 1965 instituted Afghanistan Transit Trade Agreement (ATTA) under which Pakistan provides tax and duty free transit facility to Afghan cargo transported through Torkham and Chaman to Afghanistan. In this respect the Afghan Government is already examining the proposal and is set to ink the transit facility formally at the highest level.

The two countries are also in a process of revising and upgrading (the outdated) ATTA to remove difficulties faced by the Afghan importers and also to increase the volume of transit trade for the benefit of both countries. According to the latest version of the ATTA, which has been renamed as Afghanistan Pakistan Transit Agreement (APTA), Pakistan and Afghanistan would not levy customs duty, taxes, dues and charges of any kind, whether national, provincial or municipal, on goods in transit regardless of their destination.

Extension of railway link between Chaman-Spin-Boldak is expected to be deliberated in the ensuing visit as this issue was discussed in 2006 for establishing better communication and development of physical infrastructure, which will help in enhancing trade facilities between the two countries. Pakistan would also offer preferential, low-cost and hassle free access to Afghanistan through Gwadar port.

Under South Asian Free Trade Agreement (SAFTA), Pakistan is set to allow duty concessions on the import of over 1000 items from Afghanistan which would be available from January 2009. Similarly, the Afghan side would also offer duty concessions to Pakistan on certain items for promotion of bilateral trade, according to the provisions of the SAFTA.

Source: http://www.bilaterals.org/article.php3?id_article=14144

CUTS Comments: *Afghanistan joined the South Asian Free Trade Agreement (SAFTA) as its 8th member in 2007 while India and Pakistan (along with other 5 countries, viz., Sri Lanka, Bangladesh, Bhutan, Nepal and Maldives) are its members right from its inception in 2004. SAFTA has been operationalised from 2006.*

The inking of a free trade pact by Pakistan with Afghanistan will put Pakistan in a strategically advantageous position vis-à-vis India in its trading relationships with Afghanistan. This advantage would be further enhanced by its common border with Afghanistan. Moreover, by virtue of the new agreement, Pakistan's goods will enter duty free into not only Afghanistan's markets but would gain access to Central Asian markets. The harmful effects of this arrangement on India could be minimised if the India-Afghanistan PTA (inked in 2003) is made more effective and workable.

There are some agricultural products (edible fruits and nuts, coffee, tea), livestock products, man-made filaments, apparel, clothing, footwear, chemicals, precious stones, gems and jewellery, etc. being imported by Afghanistan and Central Asian countries from India, which might see a change in origin to Pakistan. Thus, on account of the Afghanistan-Pakistan FTA India stands to lose not only in the Afghanistan market but also in Central Asian ones.

Food for Thought
The combination of the Pakistan-Afghanistan trade pact, India-Afghanistan PTA and the SAFTA arrangements might ultimately lead to economic integration among the associated South Asian countries and the emergence of a common sub-continental market. The FTA/PTA arrangements between/among the countries in question would help eliminate/minimize illegal trade.

2. Japan, Vietnam sign free trade pact

Japan and Vietnam signed an economic partnership pact with a promise to cut tariffs on some 92 percent of goods and services traded between the two nations within a decade. The agreement will strengthen the mutually beneficial economic collaboration between the two countries by facilitating freer flows of goods, services and investment. In a joint statement issued after the meeting of the Japanese Foreign Minister and Vietnamese minister for industry and trade, it was stated, "we are convinced that such economic cooperation will contribute to the economic development of our two countries, promote well-being of our peoples, and expand opportunities and benefits for our business sectors".

The agreement allows for freer bilateral trade than that facilitated by the trade agreement between Japan and the whole of ASEAN, which includes Vietnam. Under the new agreement Vietnam will get duty free access to the Japanese market for shrimps, durian and okra, among other farm and marine products. Japan will be able to sell duty-free auto parts, steel and electronic goods for assembly in Vietnam, particularly parts that require high skill.

Japan, the world's second largest economy, has been seeking a growing number of bilateral trade deals amidst the collapse of global liberalization talks.

Source:
http://www.google.com/hostednews/afp/article/ALeqM5jVFdAMbRmewB0FHu8miBu1y694FQ

CUTS Comments**:**

India is currently negotiating a free trade agreement with Japan. Japan is India's tenth largest trade partner. India exported $ 3.85 billion worth of goods to Japan in 2007-08, which inter alia included ores, slag and ash; mineral fuels; cotton, textiles, especially apparel and made-ups; gems and jewellery; and organic chemicals. Vietnamese exports to Japan are mainly coal, crude oil, marine products, garments, textiles, seafood, electric wires, and wood work.

Japan exports vehicles, electrical and electronic equipments, optical photographic equipments, chemicals, textiles, machinery, transport equipments etc to Vietnam. India's exports to Vietnam include iron and steel; copper; aluminium; cotton; miscellaneous chemicals; plastic; rubber; raw hides and skins; etc.

Thus, the FTA between Japan and Vietnam would impact India's trade interests adversely due to overlap between Indian and Vietnamese exports to Japan as well as Indian and Japanese exports to Vietnam.

Food for Thought:

What would be the effect of the Japan-Vietnam free trade agreement on Japanese FDI in Vietnam? Would that displace some potential Japanese investment in India?

3. Bulgaria and Macedonia sign economic co-operation agreement

Bulgaria and Macedonia signed an economic cooperation agreement on December 15, 2008; the treaty was part of the agenda of the two-day state visit to Macedonia of Bulgarian Prime Minister Sergei Stanishev on the occasion of 100 years of Bulgarian independence and the 15th anniversary of the establishment of diplomatic relations between the two countries.

On this occasion inauguration of an electricity line connecting Macedonia to Bulgaria (launched in 2006 and funded to the tune of 50 million euro by the European Bank for Reconstruction and Development as part of a European power link linking Italy, Albania, Macedonia and Bulgaria) also took place.

Bulgaria is among the leading foreign investors in Macedonia, which are mainly concentrating in sectors such as banking, insurance, food industry, telecommunications, tourism and metallurgy. In total, Bulgarian investments in 2007 totalled $33.6 million, a six-fold increase over 2006. In 2007, bilateral trade was $762 million, which was a 51.1 percent increase over $475.7 million in 2006.

Source:http://www.sofiaecho.com/article/bulgaria-and-macedonia-sign-economic-co-operation-agreement/id_33599/catid_68

CUTS Comments:

India's total trade with Bulgaria stood at $191 million in 2007-08, of which India's imports were $120 million (about two-thirds were copper alone), resulting in a significant trade deficit for India. Thus, Indian exports to Bulgaria are insignificant. With Macedonia India's trade is insignificant: in 2007-08, India exported goods worth $8.33 million to Macedonia and imported just $0.28 million worth of goods. Thus, the question of trade overlap leading to Indian losses does not arise in the context of the newly inked agreement between Bulgaria and Macedonia.

4. First GCC trade accord signed with Singapore

The six Gulf oil producers signed a free trade agreement (FTA) with Singapore on 22nd December, 2008. The Gulf Cooperation Council (GCC) - Singapore FTA (GSFTA), the first-ever FTA for the GCC, is a key step forward for economic relations between Singapore and its 7th largest trading partner. The GCC and Singapore agreed to enhance cooperation in the air services sector. Such cooperation may include, among other things, concluding an air services agreement between one or more of the GCC countries and Singapore.

The GCC currently accounts for 40 percent of Singapore's oil imports. Bilateral trade with the GCC, comprising Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain and Oman, reached a record high of S$42.4 billion (Dh 105.45 billion) in 2007, a 127 percent increase since 2002.

The GSFTA is a comprehensive free trade agreement covering areas such as trade in goods, services, investment, rules of origin, customs procedures, government procurement, electronic commerce, and economic cooperation. The agreement will grant tariff-free access for about 99 percent of Singapore's exports, worth about S$ 3.1 billion in 2007. All GCC goods entering into Singapore will also be granted tariff-free access.

The GSFTA will also encourage a greater recognition of Singapore's *halal* standards in the six-member Arab trade group. The GCC countries have committed to either recognise or begin talks to recognise the Singapore *Muis Halal* Standards (SMHS) as consistent and compliant with similar standards in their countries. Recognition of SMHS by the GCC countries will not only facilitate *halal* product exports to the GCC, but will also provide greater assurance to Gulf visitors that their dietary requirements will be met when they visit Singapore.

The GSFTA allows Singapore-based companies and Singapore Permanent Residents to hold majority stakes in key sectors of GCC markets. In particular, Singapore has gained access in the UAE, Saudi Arabia and Qatar for construction services, computer services, environmental services and professional services. GCC countries are committed to signing bilateral Investment Guarantee Agreements (IGAs) with Singapore in order to better protect the investments of their businessmen in each other's countries.

Source: http://archive.gulfnews.com/business/Trade/10267579.html

CUTS Comments

Both GCC and Singapore are important trade partners of India. India exported worth $16.4 billion (12%of India's total exports) to GCC countries during 2007-08 and imported worth $31.01 billion (16% of India's total imports) from these countries.. Indian imports from GCC mainly constitute Petroleum, Oil and Lubricants (POL) product; its exports to GCC are much more diversified and, include precious stones, gems and jewellery, textiles and clothing, iron and steel, chemicals, plastics, pharmaceuticals etc.

India has already in place an operative Comprehensive Economic Cooperation Agreement (CECA) with Singapore since August 1, 2005. Indian exports to Singapore have grown by over 12 percent annually during 1996-97 to 2006-07 and stood at $ 6.07 billion in 2006-07. In 2007-08 total bilateral trade between the two countries reached a new high of $15.5 billion with India having a slight trade deficit of less than a billion dollars.

There is a strong overlap between India-GCC exports and Singapore-GCC exports. Mineral fuels, organic chemicals, electric machinery, precious stones, iron and steel and products thereof, aluminum, copper, nuclear reactors, boilers, ships and boats etc are goods which find place in India's exports to GCC countries and many of these goods also find place in Singapore's exports to GCC. Singapore's exports to GCC include organic chemicals, plastic and products thereof, printed books and products of printing machinery, nuclear reactors, boilers, ships, boats etc.

India's exports to Singapore include, among others, mineral fuels; ships and boats; electric machinery; nuclear reactors and boilers; precious and semi precious stones; organic chemicals; copper, aluminium etc. GCC exports to Singapore include many of these commodities (thus, significant trade overlap exists), prominent ones being mineral fuels, organic chemicals, precious and semi precious stones, electric machinery, copper and aluminium etc. Thus, India may suffer significant trade diversion in favour of GCC countries in the wake of operationalisation of the GSFTA.

Food for Thought

Before India could sign a FTA with GCC, Singapore has taken a lead in signing one with GCC and till such time India inks a FTA with GCC it will be at a disadvantage, as Singaporean goods will displace many Indian goods currently entering the GCC market. So the message is clear: India should hasten finalisation of the FTA with GCC. What items should this FTA concentrate on? What should be the harvest periods? These issues require some thought.