Dossier on Preferential Trade Agreements

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1. Australia signs free trade deal with Chile

The collapse of WTO talks has prompted a proliferation of bilateral and regional free trade agreements, such as that signed by Australia and Chile on July 30, 2008. The Australian trade Minister Simon Crean, who was in Geneva at the WTO Ministerial meeting, said that the FTA is a "high-quality agreement where commitments go beyond" what each country had committed at the WTO.

This free trade agreement is the most comprehensive one signed by Australia. Upon entry into force, the agreement will eliminate tariffs on 92 percent of lines covering about 97 percent of trade in each direction and 100 percent of tariffs on existing merchandise trade by 2015. The Agreement provides coverage to all goods, including sugar and immediate market access gains for exporters and parity with suppliers from other countries with preferential access.

The two-way trade between Australia and Chile is currently valued at more than $850 million a year and the stock of Australian investment in Chile currently exceeds $ 3 billion. The FTA will provide Australian agriculture – in particular dairy, meat, ovine and bovine genetics, sugar, production technologies and wine – with better market access to the fast-growing Chilean economy.

<u>CUTS Comments</u> *Indian exports to Australia and Chile have some overlap with the commodities being traded between Australia and Chile. This overlap, however, is not complete and there are many Indian exports that do not feature in Australia-Chile trade and vice-versa. Australia exports coal, civil engineering equipment, specialized machinery and other instruments to Chile while it imports non-ferrous base metals, pulp & waste paper, pig iron, wood, etc from Chile. India's exports to Australia include pearls, semi-precious stones, jewellery, textile & clothing; it exports organic chemicals, coffee, tea, fish, cotton, textiles & clothing, iron & steel, vehicles, accessories etc to Chile.*

Thus, the FTA between Australia and Chile will have some impact on Indian trade; the magnitude of this impact cannot be predicted with certainty and depends on the relative competitiveness of the involved countries in the production of items of overlap.

Food for Thought

The FTA between Australia and Chile will have some negative impact on India's trade with Australia and Chile as there are some trade overlaps (mainly in regard to commodities like organic chemicals, industrial machinery, pig iron, non-ferrous metals, etc) with these countries, however, India's PTA with Chile would neutralize some of these negative effects. India and Chile have agreed to lower tariffs on selected commodities currently being traded between them under the Preferential Trade Agreement signed in 2005.

As Chile would offer opportunities for India to penetrate deep into the Latin American market and Australia would do the same for India with respect to the East Asian market, should India try to expedite efforts to set up FTAs with both Chile and Australia?

2. US-SACU sign trade agreement

On July 17, 2008 the trade ministers from the United States and the South African Customs Union (SACU) signed a Trade, Investment and Development Cooperation Agreement (TIDCA). After signing the agreement the US Trade representative (USTR) Susan C. Schwab said, "before we address the issues of an FTA, we are using the new TIDCA to expand market access, strengthen the links between trade and economic development strategies, encourage greater foreign investment, and promote regional economic integration and growth."

The TIDCA will be a formal mechanism for the US and the SACU to conclude a range of interim trade-related agreements, cooperative work and other trade-enhancing initiatives including developing work plans on key issues such as sanitary and phyto-sanitary barriers, technical barriers to trade, trade facilitation and investment promotion that should lead to increased US-SACU trade and investment in the near future.

The US and the SACU launched FTA negotiations in 2003, which were suspended in April 2006 largely due to divergent views on the scope and level of ambition for the agreement. In November 2006, the both parties agreed to pursue a new type of agreement – a TIDCA that could enhance trade and investment between the US and the SACU in the short-term and help lead to a possible FTA in the longer term.

SACU is currently the largest non-oil trading partner of the US in Sub-Saharan Africa with bilateral trade valued at $15.8bn in 2007.

CUTS Comments *India stands to lose heavily as a consequence of the US-SACU Trade, Investment and Development Cooperation Agreement (TIDCA) as there exist a strong overlap between India-US trade and US-SACU trade. Both India and South Africa compete in the US market in regard to commodities including, among others, precious (excluding gold) and semi precious stones (including diamonds), automotive parts and accessories finished and semi-finished iron & steel products, electric machinery and appliances, aluminium, organic chemicals, clothing and apparels, etc.*

The TIDCA and FTA between SACU (read South Africa) and US in the short and long term respectively will cause the former to out compete India in the US market because South African products will consequently be able to enter duty-free into the US market. Similarly Indian exports to South Africa will also suffer as US products will enter the South African market duty-free. Both US and India compete in South African market in commodities like cereals, mineral fuels, pharmaceutical products, organic chemicals, plastic products, vehicles, iron & steel products, industrial machinery, etc.

Food for Thought

Should India not attempt to negotiate a PTA/FTA soon with SACU to minimise losses occurring due to the US-SACU FTA?

3. Taiwan-Honduras FTA comes into effect

Taiwan's free trade agreement with Honduras has come into effect on July 15, 2008 to expand further trade ties between the two nations. The Taiwan-Honduras agreement is a three-party FTA between Taiwan, El Salvador and Honduras, which was signed by them in May 2007 to boost diplomatic and trade ties. The Taiwan-El Salvador FTA came into force on March 1, 2008.

Under the agreement, Taiwan will grant tariff exemption to 6,135 import products from Honduras while Honduras will exempt tariffs on 3,881 Taiwanese products. The three party agreement (Taiwan-El Salvador-Honduras) aims at boosting bilateral trade as well as allowing Taiwanese goods to enter the North American market via Central America and letting Central American goods enter the Asian market via Taiwan.

The Taiwan-Honduras FTA is the fourth such agreement that Taiwan has signed with foreign countries. Taiwan is attempting to sign free trade agreements with large economies such as the US and Japan. However, these countries are reluctant to sign FTAs with Taiwan as they have diplomatic ties with China. China sees Taiwan as a breakaway province and does not approve of foreign countries launching formal ties with Taiwan.

CUTS Comments *India's total trade with Taiwan stood at $2.6bn, of which India's imports were $1.7bn in 2006-07, thus, resulting in a huge trade imbalance for India. With Honduras India's trade is insignificant. In 2006-07 India exported goods worth $113mn to Honduras and imported just $1.7mn worth of goods.*

The FTA between Taiwan and Honduras will have minimal impact (negligible trade diversion) on India, as most of the commodities such as electric machinery, iron & steel, copper, aluminium, cotton, organic chemicals salt, sulphur which Taiwan imports from India do not find place in the import basket of Taiwan from Honduras.

Food for Thought

Will India benefit substantially from a FTA with Taiwan even though China might not approve such a development?

4. Mercosur signs trade deals with SACU, Turkey and Jordan

At the two-day (July1-2, 2008) summit in Argentina the leaders of the South American trade bloc (Mercosur) have signed trade agreements with the Southern African Customs Union (SACU) and with Turkey and Jordan. The summit has focused on promoting regional integration, financing infrastructure projects and granting credits to small businesses that are unable to get regular bank loans. One of the key tasks of the bloc is to ensure regional food and energy supplies, which have come under pressure as Argentina and Brazil grow.

A preferential trade agreement with the 5-member country (Botswana, Lesotho, Namibia, South Africa and Swaziland) of the Southern African Customs Union (SACU) envisions a reduction of customs duties on 1,000 products. Mercosur countries export around $550mn worth of goods to these South African countries annually.

Framework agreements on the preparation of free trade treaties were signed by MERCOSUR with Turkey and Jordan. Mercosur's trade with these countries has almost doubled over the past six years.

Established in 1991, Mercosur unites around 250mn South Americans in a commercial free trade zone characterised by free movement of goods, people and currency among its four member countries-Argentina, Brazil, Paraguay and Uruguay. Five more Latin American countries are its associate members.

CUTS Comments *India and South Africa compete in exporting goods into the Mercosur market, which inter alia include organic chemicals, textiles, synthetic fibres, vehicles and accessories, electric machinery and mechanical appliances. Similarly India competes with Brazil in the South African market in exporting motor vehicles, agricultural products, organic chemicals etc. The formation of a FTA between Mercosur and SACU would certainly adversely affect Indian exports to both these blocs (trade diversion) till such time India signs and operationalises PTAs/FTAs with both Mercosur and SACU and/or bilateral/trilateral FTA(s) with South Africa and Brazil under the auspicious of the IBSA (India-Brazil-South Africa) Initiative.*

Food for Thought

Will it be possible to create a trilateral FTA involving India, Brazil and South Africa, representatives of three continents and thereby link the three large regional groups of SAARC, SACU and Mercosur to voice developing country concerns?

5. Indonesia-Japan economic partnership agreement comes into effect

The Economic Partnership agreement (EPA) signed between Indonesia and Japan has come into force on July 1, 2008 after six rounds of talks. Relations between the Indonesia and Japan have reached a new high with the two countries inking an array of strategic partnerships last year, covering the environment, health care, competition policies, movement of people and a new free-trade deal that will potentially open the door for investment.

According to the Japanese Ambassador to Indonesia, Kojiro Shiojiri, the Japan-Indonesia EPA could be a model for world economic cooperation, as the two countries have been building comprehensive, close and mutually beneficial relations. Indonesia and Japan are important economic partners in East Asia. As far as Indonesia is concerned, Japan is a trade partner and the biggest foreign investor. To Japan, Indonesia is a major energy supplier for its manufacturing sector.

EPA, Indonesia's first bilateral free-trade deal, will exempt Indonesian products from 90 percent of Japan's 9,275 import duties, amounting to 99 percent of its export value. The agreement also envisages fostering the services sector and the export of workers to Japan. Japan will be exempted from 93 percent of Indonesia's 11,163 import duties covering 92 percent of its export value, while being ensured of a steady supply of energy and raw materials from Indonesia.

In spite of the EPA, it is feared, that non-tariff barriers in its trade with Japan could still obstruct Indonesia. Japan might get the upper hand in the deal because its high-tech products are still highly demanded in Indonesia and are set to enjoy even lower duties. By contrast, Indonesia's main agricultural and timber products would continue to face non-tariff and market-access barriers in Japan in the form of strict quality standards. That is why the EPA also includes cooperation in capacity building to ensure the quality of Indonesian products entering the Japanese market.

As a major trading partner, Indonesia had been exporting commodities to Japan worth $23.6bn, while Indonesia's imports from Japan were valued at $6.5bn. The total value of two countries' bilateral trade in 2007 reached $30.1bn. More than 1000 Japanese companies are operating in Indonesia absorbing 400,000 workers.

CUTS Comments *Both Indonesia and Japan are significant trade partners of India. There exists significant overlap between India's and Indonesia's exports to Japan particularly products like textiles, clothing, including made-ups, organic chemicals, gems and jewellery, fisheries etc.*

Food for Thought

Would the existence of such bilateral FTAs along with regional trading arrangements like the ASEAN lead ultimately to the formation of a Grand Asian Common Market like the EU in Europe? How far would such a grand alliance promote trade and investment in Asian countries?