Dossier on Preferential Trade Agreements

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1. Japan-ASEAN sign free trade accord

Japan and the Association of South East Asian Nations (ASEAN) have signed a free trade agreement on Friday, 28th March 2008 to promote two-way trade and investment. As per the agreement, Japan will abolish tariffs on 93 percent of its value of imports from ASEAN within 10 years, while six of the ten member countries of ASEAN, i.e., Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand, will eliminate tariffs on at least 90 percent of their imports from Japan, in terms of value as well as number of items, within 10 years.

CUTS Comments *India is currently negotiating free trade agreements with both Japan and ASEAN and there is talk about forming a grand Asian common market. However, it would be interesting to observe the likely impact of such PTAs as both ASEAN and Japan are big trade partners of India. The FTA between Japan and ASEAN would be operational by autumn this year. India-Japan and India-ASEAN negotiations have also been speeded up so that the respective deals are finalised within this year. Till India signs and operationalises these FTAs it may lose out due to higher tariffs and non-tariff barriers (NTBs) faced by Indian exports to these markets.*

It is pertinent to note that India has a significant trade overlap with Japan as well as the member-countries of ASEAN, particularly for products like textiles, clothing, including made-ups, organic chemicals, gems and jewellery, fisheries etc. Within the ASEAN Indonesia, Malaysia and Singapore are important trade partners of Japan. Stimulation of trade between these countries and Japan through FTAs might adversely affect the latter's trade with India. Similarly, the Japan-ASEAN FTA may also adversely affect Japanese investment inflows into India. However, having in place the India-Singapore CECA and the India-Thailand FTA (involving two important members of the ASEAN) might imply that that signing of an FTA between Japan and ASEAN would not hit the Indian economy very hard.

Food for Thought

1. What are the possibilities for 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?

2. Will signing of the Japan-ASEAN free trade agreement divert Japanese trade and investment from India into these ASEAN countries? What will be the composition of such trade diversion?

2. Turkey offers FTA with India

In a recent visit the Turkish Minister of State for Foreign Trade and Foreign Contracting Services, Kursad Tuzman has offered India an FTA to promote two-way trade and investment. Trade between India and Turkey is growing rapidly and has already crossed the target limit of US$1bn in 2004 and reached US$2.6bn in 2007 though it is hugely in favour of India.

Turkey wants to boost its exports of the products in which it has a competitive advantage such as agro-food products, textiles, plastics, chemicals, machinery, and construction materials. Turkey also wants Indian investment in mining, biotechnology, medicine, tourism (hotels management), automotives, information technology, railway, coastal development, energy sector, etc. Turkish companies are interested in investing in India in areas like food and food processing, textiles, plastic, chemicals, machinery, construction and infrastructure projects. A Turkish textile firm has already decided to make a green-field investment of $45 million in India to serve the expanding domestic market and also the South East Asian market.

The Minister hoped that, "With a view to aligning our preferential regime with the EU under Customs Union, we would like to initiate and conclude FTA negotiations with India. I believe that a FTA ….. concluded between our two countries will stimulate trade figures to the expected levels while diversifying the products subject to bilateral trade,"

CUTS Comments *Indian exports to Turkey have registered significant growth of over 30 percent in 2006-07 over the preceding year and now stand at US$1.32bn. Indian exports are diversified and include coal, organic chemicals, pharma products, plastic, cotton, yarn, textile products, iron & steel, copper, natural stones, etc. Many of these products feature also in the export basket of Turkey to the rest of the world and thus potentially offer competition to Indian exporters in the international market.*

Since India is currently negotiating a FTA with the EU, of which Turkey is a member, the value added by India's FTA with Turkey would depend on whether the concessions offered are stronger than those offered by the India-EU FTA.

Food for Thought

1. Turkey is a member-country of the European Union and has now offered a FTA to India while India is currently negotiating a FTA with the EU. What will be the likely synergy between India and Turkey if these countries go ahead with FTA negotiations?

2. The products in which Turkey and India have a competitive advantage with respect to the rest of the world have many elements in common: textiles, plastics, building materials like decorative stones, agro-processing, etc. How will the export basket of India be affected by the India-Turkey FTA?

3. New Zealand offers FTA with India

Jim Anderton, the New Zealand Minister for Agriculture, Forestry, Bio-Security, and Fisheries has said in New Delhi recently on his visit to India that his country would like to sign an agreement for free trade and foreign investment with India. New Zealand has competitive strengths in forestry, milk products and horticulture.

He said that given the trade complementarities between India and New Zealand and also their common status as members of the Commonwealth, it would be odd if a free trade agreement is signed by New Zealand with China before India.

New Zealand has a comparative advantage in exports of forestry, milk products and horticulture and there is enormous scope of cooperation related to these products between the two countries. New Zealand currently exports wood products worth $3.1 billion to India, which was the fifth largest export market for wood products in 2007. "India is now protecting its native forest and needs to import timber to meet growing demand for construction and other industries. New Zealand's large and sustainably managed plantation timber resource is an answer to this need," New Zealand's High Commissioner to India, Rupert Holborow said.

CUTS Comments *By signing an agreement of free trade with New Zealand India will be in a position to import free of duty products such as timber and wood for the rapidly growing construction and wood (furniture) industry, which is also highly labour intensive. New Zealand is fairly advanced in food processing, the dairy industry and horticultural production and India can gain by importing these products from New Zealand.*

Food for Thought

1. Will the New Zealand-India FTA help Indian agro-food processing, dairying and wood and timber industry to grow faster, both in terms of investment and technological improvement?

2. Given that some of the above industries are highly labour intensive, what will the India-New Zealand FTA do to employment generation in India?

4. China signs agreement with Peru to boost energy and mining cooperation

China, the second-largest energy user after the US, has signed an initial agreement with Peru for enhanced cooperation in energy and mining. China has been experiencing an exceptionally high growth rate of over 10 percent in the last decade or so and is sourcing energy and mining products globally.

In 2006-07 Peru's mining exports rose 15 percent to a record US$16.9bn with most of these exports going to China, Japan and Switzerland. Similarly, Peru exported US$1.2mn metric tons of crude oil to China, which was 15 percent higher than that in the previous year.

<u>CUTS Comments</u> *India has signed preferential trade agreements with MERCOSUR (Common Market between Brazil, Argentina, Paraguay and Uruguay) in 2004 and with Chile in 2005 with limited tariff concessions provided on very limited tariff lines. India has a trade surplus with these Latin American countries with Brazil being the largest market for Indian exports. The Latin American countries commanded 3.4 percent of the value of India's total exports in 2006-07 which was an all time high at that point of time..*

Distance may have played a role in the low volume of India's trade with these South American countries. However, the PTAs with MERCOSUR (the Southern Cone in South America) and IBSA (India-Brazil-South Africa) have had a positive impact on trading relations. Dialogue may have had a positive impact also on Brazil-India trade in the last few years.

It deserves mention that these South American countries are rich in natural resources and they also possess a competitive advantage in energy and mineral export. Therefore, to tap these resources, India should have an aggressive PTA policy like that of China -- make the already negotiated PTAs with MERCOSUR and Chile bear fruit and also initiate negotiations for PTAs with Peru, Columbia etc.

<u>Food for Thought</u>

1. Recently the Indian President visited Chile and other South American countries. During the visit, the Chilean Government offered India and its companies the opportunity to use Chile as a gateway to South America. India has already inked a preferential trade agreement with Chile (2006) and there is a steady rise in trade between the two countries (Chilean exports have grown faster than Indian exports to that country mainly due to slowness in lifting of tariffs and other non-tariff barriers by Chile on imports from India). The FTA is an opportunity, which India should exploit fully and effectively.

2. India, Brazil and South Africa (IBSA) forum has, of late, become an important developing countries' group at the international forums, especially at the WTO. This newly formed partnership involving three large and prominent developing countries should be exploited fully to develop trade and investment relations among these countries, thereby giving a new dimension and thrust to South-South Cooperation.

5. Bangladesh seeks FTA with Malaysia as pharma trade soars

Expecting a sharp increase in pharmaceutical exports to Malaysia, the Bangladeshi exporters of the product are mounting pressure on the government to start (first proposed in 2004) negotiations for a FTA with Malaysia that will promote their exports to Malaysia and thereby reduce the asymmetric trade pattern between the two countries. In 2006-07, while Bangladesh exported US$16.9mn worth of goods to Malaysia (its largest investment partner among the Association of Southeast Asian Nations (ASEAN)), its imports from Malaysia stood at US$384.7mn.

It is reported that Bangladesh is the only country among the world's 49 least-developed countries to be almost self-sufficient in production of pharmaceuticals – mainly generic drugs. Bangladesh exported drugs to as many as 68 nations amounting to US$28.12mn in 2006-07. It is expected that the pharmaceutical exports will rise significantly over the next few years as Bangladesh expands its business beyond the less-regulated Asian countries of Myanmar, Nepal, the Philippines and Vietnam in which its products have faced very little competition to the moderately regulated markets of Russia, Ukraine, and Singapore and highly regulated markets such as EU and the Gulf Cooperation Council (GCC) states of Bahrain, Kuwait, Saudi Arabia, and the UAE.

The Malaysian drug industry is expected to grow by 10.5 percent annually to reach US$1.8bn in 2013. Multinational companies dominate the Malaysian drug industry and as this sector is set to grow, these firms would increase their outsourcing and licensing operations, including the conduct of clinical trials, with the support of government incentive schemes. Furthermore, the Malaysian population is small in size but its healthcare spending is 'incredibly high'; hence, the opportunities for health care companies venturing into Malaysia look bright.

<u>CUTS Comments</u> *India has already started efforts to explore opportunities for negotiation of a FTA with Malaysia;, however, the pace with which these efforts are being made is very slow. India is an important exporter of drugs and other pharmaceutical products as well as possesses low cost health care (both medical and para-medical) facilities. It is currently exporting pharmaceutical products and health care services to relatively highly regulated markets in the EU and US as well as to its neighbours. It will be an added advantage if India inks FTA deals quickly with the ASEAN as a whole as well as with its member-countries.*

Food for Thought

1. India and Bangladesh have almost similar factor proportions but in exports of pharmaceutical products India is better placed compared to Bangladesh which is exemplified by the fact that Indian pharmaceutical exports have been able to penetrate the highly regulated markets of the US and the EU. Will it not be to the competitive advantage of both India and Bangladesh to go ahead with a free trade agreement and develop a synergy to reap the fruits of scale economies and cost advantages in this important and rapidly growing sector? Indian FDI in Bangladesh's pharmaceutical sector may help in developing a win-win situation for pharmaceutical sectors in both countries.

2. India is exploring possibilities of a FTA with Malaysia and is also currently negotiating a FTA with ASEAN, of which Malaysia is also a member. Malaysia is an important trade partner of India in the ASEAN group. A FTA between India and Malaysia will enhance two-way trade and investment and negate the advantage gained by Bangladesh's pharmaceutical sector through a FTA with Malaysia.