

Dossier on Preferential Trade Agreements

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1. EU-Vietnam launches talks on new bilateral pact

In the last week of November 2007, during the visit by European Commission President Jose Manuel Barroso, talks were launched on a wide-ranging cooperation between the European Union and Vietnam. According to Barroso, a new Vietnam-EU Partnership and Cooperation Agreement, replacing the earlier 1995 pact, “will broaden and deepen our political agenda”.

Barroso and Prime Minister Nguyen Tan Dung said in a joint statement that the new agreement would cover areas ranging from trade and investment to science and technology, education, culture, justice, the environment and security.

One of the aims was to “facilitate deeper economic and commercial integration between the EU and Vietnam preceding a future Free Trade Agreement between the EU and countries of ASEAN” it said.

Barroso has praised Vietnam’s economic growth and sharp poverty reduction, and said the country is now poised for a larger role on the world stage as it takes a two-year UN Security Council seat in January 2008. Vietnam became member of the World Trade Organisation (WTO) in January 2007.

Vietnam, poor and deeply isolated until the 1990s, witnessed a spectacular growth rate of 8.2 percent in 2006-07 and received increasing investment inflows of over US\$10bn during January-December 2007. The EU is now Vietnam’s largest trading partner, and it is hoped that two-way trade of goods and services, which reached US\$13.4bn last year, would go up to US\$15bn per year by 2010.

Though widely praised for economic reforms initiated in the 1990s, Vietnam is being criticised for maintaining a one-party political system and on its crackdown on dissidents recently. The EU-Vietnamese dialogue had broadened in recent years to include more political issues such as governance, human rights and anti-corruption. The members of the EU delegation raised concern about several recent arrests (of several dissidents, including their foreign supporters, a French, a US and a Thai citizen, who had met to discuss peaceful change toward a multi-party system).

CUTS Comments *Currently India is negotiating FTA with ASEAN (Vietnam is a member of ASEAN) and EU is also negotiating FTA with India. Both the Agreements are likely to be signed during this year. How will each of them have an interface with the other needs to be examined in-depth.*

2. Pakistan and Mauritius operationalise Preferential Trade Agreement

Pakistan and Mauritius signed a Preferential Trade Agreement (PTA) on July 31, 2007 in Port Louis to promote trade and cooperation between the two countries. The Agreement is set to be operationalised from November 30, 2007.

According to the Pakistan government, this PTA applies to a large number of products traded between the two countries. Mauritius offers good market potential for Pakistani exports and can also serve as a gateway to the entire African region. It will therefore ensure that Pakistani products have an edge over the products of other countries in the Mauritian market.

According to the Pakistan government's order, a 50 percent Margin of Preference of existing tariff rates has been granted to 64 products, including natural flowers, fruits, tea, sugar, seafood and soap. This Margin of Preference shall increase to 100 percent from November 30, 2008. Similarly, the Margin of Preference ranging from 35 percent to 50 percent and a tariff quota ranging from 200,000 to 300,000 pieces has been granted on 66 textile made up items.

Mauritius has offered a Margin of Preference ranging from 15 to 30 percent for the first year of the PTA on 102 Pakistan Customs Tariff lines which includes products such as flowers, fruits, cereals, tobacco items, salt, marble, carpets, bed linen, textile furnishing articles, electrical machinery and microwave ovens. This Margin of Preference will increase to the range of 50 to 100 percent from November 30, 2008.

Along with PTA the two countries have signed 6 Memoranda of Understanding (MOUs) in July 2007, which include: Mutual Administrative Assistance in customs matters, sanitary and phytosanitary matters, small enterprises and handicraft, standards and quality control etc.

CUTS Comments *It is interesting to note that India started talks for a PTA with Mauritius as late as 2005 but the agreement is yet to see the light of the day. India's exports to Mauritius reached US\$228mn in 2004, making it Mauritius' third largest supplier, while Mauritian exports to India doubled in 2004 to US\$16.5mn over the preceding year.*

About one-third of total foreign direct investment into India (around US\$111.15bn between 1991 and 2005) was routed through Mauritius because of an agreement to prevent double taxation. Despite much interest shown by businessmen from both the sides, who foresee tremendous scope of trade enlargement (as Mauritius is a gateway to Africa and thus offers opportunity to tap large and growing East African market and for Mauritius, the Asian market through India) there is no further progress towards inking a PTA between India and Mauritius.

Another interesting fact of this PTA is the quotas on textile made ups, when both countries are perhaps competitors in third country markets. There are lessons in this for India as well. The second interesting aspect is the coverage of sugar exports from Mauritius to Pakistan, when India too is exporting sugar to Pakistan.