Dossier on Preferential Trade Agreements

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1. China-Singapore agree on free trade accord

China and Singapore concluded a free trade agreement, China's first with another Asian (other than Thailand) country, is expected to be signed at the Asia Europe Meeting Summit in Beijing October 24-25 this year. The accord includes the liberalisation of trade relations, lowering of tariffs, economic cooperation and food safety. The bilateral trade between the two countries stood at US$66.8bn in 2007 and investment of US$34bn.

China is the third-largest trading partner of the city-state, which has a predominantly Chinese population, while Singapore is China's eighth. Singapore has 13 free trade agreements with countries including the US, Australia, India and Japan.

The Association of South East Asian Nations (ASEAN) has just completed talks on free trade agreements with India, Australia and New Zealand in efforts to increase business ties between the 10-member organisation, the ASEAN, which includes Singapore and other countries in the region. ASEAN also has a free trade pact with China.

<u>CUTS Comments</u> *Though India is already party to a CECA (Comprehensive Economic Cooperation Agreement) with Singapore, the FTA accord between China and Singapore would certainly affect India's trade and investment arrangements with both these countries. Indian exports to Singapore have grown by over 12 percent annually during the period, 1996-97 to 2006-07, while those to China have grown much faster at 26.69 percent during the same period. India's exports to Singapore and China stood at US$6bn and US$8.3bn respectively in 2006-07. There is a significant trade overlap between Indian exports to these two countries and Sino-Singapore trade. It would be in the interest of India to finalise an FTA with China in order to prevent any possible loss of trade and investment with either of these two countries.*

<u>Food for Thought</u>

Will it be possible for Singapore to out compete Indian products in the Chinese market?

2. Philippines-Japan trade deal likely

Japan and Philippines Economic Partnership Agreement (JPEPA), the first-ever bilateral free trade deal for Philippines, is expected within this year. The deal, concluded by the Philippines' Foreign Affairs Secretary and the Japanese Foreign Minister, followed an exchange of notes last year where Japan pledged not to ship toxic waste to the Philippines even if tariffs on waste products were scrapped under the trade deal.

The JPEPA provisions also being contested involve 'national treatment', where Japanese businesses would be treated as Filipino entities, "most-favoured nation treatment" where Japan would be treated equally with other countries with regard to other international treaties and concessions, and the performance requirements mandating Japanese firms to transfer technology to the Philippines.

The present rules restrict foreign equity to 40% in sectors like utilities, schools, and even the ownership of land, and totally bans foreign ownership in mass media and the practice of professions. The August 28 exchange of notes detailed, among others, adherence to constitutional provisions such as promotion of the right to health of Filipinos, protection of Filipino enterprises against unfair foreign competition, ownership and transfer of lands of public domain and utilization of natural resources, preferential rights, privileges and concessions granted to Filipinos covering the national economy and patrimony, and regulation of foreign investments.

Once the JPEPA takes effect, tariffs on 95% of Philippine exports to Japan will be eliminated while import duties on industrial goods such as electronics and cars will be phased out within a ten-year period. As a sweetener, a limited number of Filipino nurses and caregivers will be allowed to work in Japan. Sectors such as farming, fishing, and food processing are expected to benefit immediately from zero duties.

JPEPA advocates have warned that the Philippines risked losing out to other trading nations as Japan already has "economic partnership agreements" with 11 other countries and the 10-member Association of Southeast Asian Nations as a group.

<u>CUTS Comments</u> *India has already initiated FTA negotiations with Japan, which should be completed by the end of this year. Japan is India's tenth largest trading partner and Indian exports of goods to Japan have grown by over 13 percent in 2006-07 over 2005-06 to reach US$2.8bn. Japan ranks fifth in terms of cumulative FDI equity inflows into India. Japan's FDI in India is estimated to be around US$5.5bn over 5 years from 2006 to 2010. India's trade with Philippines is limited and Indian exports to Philippines were US$ 583 million in 2006-07. Since the composition of Japanese imports from India and those from Philippines do not significantly overlap, therefore goods trade between India and Japan may not be significantly adversely affected; however, the FDI inflow from Japan into India may suffer a setback owing to JPEPA which may attract more Japanese FDI into Philippines.*

<u>Food for Thought</u>

Will the India-Japan FTA/CEPA, which is on the anvil, neutralise the advantage that has been provided to Philippines over India with respect to trade and investment relations with Japan?

3. COMESA agrees to economic merger with South Africa

The plan to merge 26 eastern and southern African states into a single trading bloc with a combined gross domestic product of US$625bn is complete and ready for heads of states to sign-off next month. The plans for the merger of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern Africa development Community (SADC) were agreed at a special meeting held in Nairobi, during the third week of September, ahead of a tripartite summit to be held in Kampala on October 20 to speed up economic and political integration in Africa under the African Union (AU).

The economic merger will open borders throughout the eastern side of Africa, from Egypt to South Africa, strengthening the continent's power in trade talks, opening doors to both Africa and international producers to hugely enlarged market. The proposed integration is expected to enhance cooperation among trade, investments and infrastructure, open transport corridors as well as promote joint projects to boost industrialization, agriculture and food security among member states. It is also expected to provide a road map to the realization of an enabling environment for free movement of people and goods among member states with the ultimate aim of creating a single market and investment area.

The weaker representation of African interests at the multilateral trade talks as well as with different regional trade blocs such as the European Union and overlapping membership of a country in different trading blocs within the continent prompted these three African regional trading groups to come together to form a powerful bloc like the EU.

There are apprehensions amongst some countries about this possible Africa-wide trading bloc. For Kenyan producers, it is a merger that foreshadows the progressive end of protection from South African imports and increased competition at home. However, it is worth mention that Kenya would enjoy the benefit of enlarged market, which is currently the top producer of goods and services in COMESA where it accounts for more than half the trade volumes.

CUTS Comments *This form of economic integration occurs when economies are complementary. Competitive economies usually prefer a customs union. However, results from the integration will not necessarily yield huge positive benefits for merging economies This warning is based on a report by the UNCTAD (United Nations Conference on Trade and Development), which showed that recent reforms in African countries have failed to boost their export trade, but have instead weakened Africa's trade balance.*

According to the UNCTAD report, the export orientations of these countries are similar. Moreover, the infrastructure for intra-African trade remains poor and characterised by high transaction costs. Further, private sector involvement in regional trade agreements is low.

Food for Thought

Will the proposed African integration help achieve its stated objectives; if so it will be a good lesson for Asia particularly the South Asian countries to learn and replicate the same?

4. EU-Canada free trade could change US-Canada relations

Canada is moving toward a far-reaching free trade agreement with the European Union that advocates say will end a long-standing dependency on the US market. The Canadian trade minister and the EU Trade Commissioner have held discussions during the past two months for “deep economic integration negotiations”. If the deal goes ahead, Canada would be the first developed country outside the EU to have the kind of access to those markets normally reserves for EU members.

While critics of NAFTA (North American Free Trade Agreement), the free trade agreement Canada already has with the US, may denounce the agreement as only furthering the interests of large corporation, but the opposition will likely to be less than there was to NAFTA, said Jason Langrish, executive director of the Canada Europe Roundtable, a group working to promote Canada-Europe trade.” This is a very good way for us to offset our relationship with the US”, Langrish added.

Canada’s deeper integration with the EU would give Canadian exporters running into trouble with American protectionism another option. It is believed that Canada often comes to the trade table with the US with a weak hand because American officials know Canada has nowhere else to go. If Canada is successful in negotiating a free trade deal with an economic block that has the same social and cultural values as Canada, such as state-funded healthcare. Furthermore the deal would give Canada a technological leg-up because it will get Europe’s green technology including tidal and wind energy and public transport.

Having an enlarged market would also benefit the Europeans as tariffs and regulations on non-member country would be eliminated on having a free trade agreement. Many European professionals would go to Canada to enjoy better taxes and cost of living.

<u>CUTS Comments</u> *This free trade deal between Canada and the EU is likely to happen. Moreover, as the Conservatives have been deeply involved in the process this agreement would go through much quicker if they were reelected (federal elections are being held in October this year). Nevertheless, because the deal has bi-partisan support it will be concluded by the two parties regardless. However, the proposed deal will have to be deeper and go beyond the existing NAFTA if it is to succeed in any meaningful manner and reduce the vulnerability of Canadian businesses against the powerful Americans.*

<u>Food for Thought</u>

Making a free trade pact with EU along with NAFTA will make the case of Canada interesting to watch. Will it be possible for Canadian business interests to break away from the dominant American influence?