

Dossier on Preferential Trade Agreements

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1. China, Peru sign free trade agreement

China and Peru on Tuesday signed a free trade agreement (FTA) that the Chinese government hailed as an "important signal" of closer international cooperation amid the global financial crisis. "With the global financial crisis looming, the China-Peru deal sends a positive message of deepening cooperation and tiding over difficulties," state media quoted Chinese Commerce Ministry official Zhu Hong as saying.

Chinese Vice President Xi Jinping and his Peruvian counterpart, Luis Giampietri Rojas, attended the signing ceremony in Beijing, both calling the deal "a new landmark" for bilateral ties, the Commerce Ministry reported on its website. The trade pact is China's second with a Latin American nation after the signing of a similar deal with Chile in November 2005.

"The China-Peru FTA is a comprehensive deal, covering goods, service, investment and other fields while the accord with Chile deals with goods only," the official Xinhua news agency quoted Zhu as saying. China signed a supplementary agreement with Chile last year on trade in services. Zhu said the agreement with Peru features a "high degree of openness" with phased, free tariffs on more than 90 per cent of goods, including Chinese electronic goods and machinery, and Peruvian fish powder and minerals. Both nations agreed to open their service industries further and give national status to investors from the other country, the ministry said.

Zhu said the agreement was likely to be implemented in early 2010 and would help both nations overcome the global economic crisis and boost their economies. China and Peru reached a basic accord on the free trade agreement in November after 14 months of negotiations. Bilateral trade was valued at 7.5 billion dollars last year, according to Chinese customs statistics. China has also signed free trade pacts with the 10-member Association of Southeast Asian Nations, Pakistan, New Zealand and Singapore. It is negotiating free trade

deals with countries and organizations that include Australia, the Gulf Cooperation Council, Iceland, Norway and Costa Rica, the agency said.

Source: <http://www.earthtimes.org/articles/show/266324.china-peru-sign-free-trade-agreement.html#>

CUTS Comments:

China is India's major trading partner, with Indian merchandise exports to China standing at \$10.8 billion and imports from China at about \$27 billion for 2007-08. Even though China makes up 6.8 percent and 11.3 percent of total Indian exports and imports respectively, the two nations do not have a preferential trading agreement in place. Both India and Peru have similar export orientation towards China. For example, the top most export of India to China is in ores, slag and ash, making up 57 percent of its total exports to the country. Peru's export in the same product group constitutes a significant 76 percent of its overall exports to China. Therefore, as a result of the China-Peru FTA, Peruvian exports from this product group could displace Indian exports in the Chinese market, resulting in a trade diversion.

On the other hand, Indian exports to Peru are concentrated in cotton; steel and iron; vehicles other than railway; and pharmaceutical products. China exports electrical and electronic equipment; nuclear reactors, boilers and machinery; vehicles other than railway and iron and steel to Peru. Hence, there is only some sectoral overlap in Indian and Chinese exports to Peru.

Given that India does not have an FTA in place with both these nations, there is a scope of trade diversion for Indian products in both the Chinese and Peruvian markets. Moreover, this particular FTA also includes a package of agreements on service trade and investments.

Food for Thought:

A Joint Task Force was constituted to study the feasibility and benefits of the India- China FTA in 2005 and Governments from both sides with involvement from various stakeholders have been negotiating for an FTA between the two nations. If operationalised, an India-China FTA would be the largest one so far. However, since trade between the two countries is already substantial, even without a FTA in place, how much additional benefit would it generate by including only goods trade?

2. Vietnam ratifies FTA with Japan

The Prime Minister Nguyen Tan Dung has ratified a comprehensive free-trade agreement with Japan. This agreement will take effect in the month of July this year. Vietnam-Japan Economic Partnership Agreement (VJEPA) is a comprehensive bilateral trade agreement, which was initiated in October 2006 during Prime Ministers visit to Japan and was signed in Tokyo last December.

The agreement covers several important areas such as goods and services, business environment improvement, investment, labor movement and technical standard co-operation.

It is expected that, 92 percent of goods that have been traded between Vietnam and Japan would be free from the tariff charges within next ten years, under this agreement.

With this agreement, there will be tax reduction or exemption for few commodities such as Vietnam's agricultural products, garments and marine products as well as for Japan's industrial supplies, including electronics and car equipment.

In the initial stages, Japan will help Vietnam with regards to certain things such as training Vietnamese nurses in Japan, developing support industries, establishing a bilateral dialogue mechanism for the garment and textile sector, improving food hygiene and safety inspection capacity and perfect quality standard system.

VJEPA will act as a tool to encourage the economic co-operation, trade and investment exchanges between Vietnam and Japan. Along with this, many opportunities are coming on the doorstep of agricultural, forestry and aqua-cultural companies, through this agreement, to access Japanese market.

Under this agreement, out of 30 types of Vietnamese agri-aqua-forestry commodities with largest export values, 23 commodities will be exempted from all taxes. Each year, a quota of 100 tons of honey will be offered by Japan to Vietnam, which will gradually increase to 150 tons. This honey will attract a tariff of 12.8 percent imposed on export volumes within the quota.

Durian will enjoy zero tax and a gradual elimination of taxes within coming five or seven year will be applicable for pepper and sweet corn. Coffee and tea will become tax-free in 15 years; whereas cuttlefish and octopus will get tax-free status after five years and shrimp exports will enjoying this benefit in coming days.

According to the experts, Japan would have large demand for food processed from pork, fresh vegetable, flowers, mechanical appliances and plastic items in near future. However, the experts say that there are some difficulties towards which a keen attention should be paid by the Vietnamese enterprises wishing to access Japanese market.

The first difficulty is lack of information about Japanese market among small and medium-sized Vietnamese enterprises and lack of experience in trading with Japanese companies. Second is Vietnamese need to pay attention to the purchasing habits of Japanese, as Japan has been tightening regulations for food hygiene & safety for agricultural exports to the country and the Japanese customers have strict requirements for quality product.

For finding Japanese partners and accessing their market, the Asia-Pacific Department, Viet Nam's Commercial Affairs office in Tokyo and the Commercial Affairs branch in Osaka, currently are acting as an intermediary for enterprises.

Source: http://www.fibre2fashion.com/news/daily-textile-industries-news/newsdetails.aspx?news_id=71589

CUTS Comments:

Total trade between Japan and India was over \$10 billion in 2007-08. Not only has India been one of the largest recipients of Japan's Official Development Assistance, Japan is also the eighth largest investor in India. Among India's top exports to Japan, mineral fuels, oils, and distillation products constitute 33 percent of total Indian exports to the country, while fish, crustaceans, and molluscs account for 6 percent. Likewise, mineral fuels, oil, and distillation products and fish, crustacean, and molluscs make up 18.7 percent and 8.5 percent of Vietnam's total exports to Japan respectively.

Under the Japan-Vietnam FTA, duty-free concessions will be given to seafood products including shrimp. This will have a significant adverse impact on India's seafood industry, particularly on shrimp products, as India is the fourth largest shrimp exporter to Japan. Moreover, this FTA is a comprehensive framework including service and investment arrangements in addition to goods trade. Japan's commitment to helping Vietnam in improving its food quality and standards system will go a long way in facilitating agriculture and processed food exports to Japan, where consumers have become conscious about food quality issues.

In addition to the risk of Indian sea food products and mineral fuels being displaced by Vietnamese goods in the Japanese market, a certain share of Japanese outward FDI could also make its way into Vietnam at India's expense.

Food for Thought:

Negotiations for the India- Japan Economic Partnership Agreement (EPA) which started from early 2007 reached its 10th round in October 2008 with no indication of any finalization in the near future. As Japan is also negotiating EPAs with other East Asian and emerging market economies, would Indian goods, particularly agricultural products, experience considerable trade diversion from the Japanese market? Would this also hamper Japanese outward FDI flows to India?

3. Serbia, Belarus sign free trade agreement

Serbian Deputy Prime Minister and Minister of Economy and Regional Development Mladjan Dinkic and Foreign Minister of Belarus Sergei Martynov signed yesterday a free trade agreement between Serbia and Belarus which envisages mutual removal of the customs duty and other taxes.

After the signing of the agreement in Minsk, Dinkic said that the free trade agreement with Belarus is very important because it will allow Serbia to export goods to a large market. He said that foreign investors who establish production in Serbia will have the same advantages, adding that this will increase Serbia's exports. The Minister said that Serbia's strategy in the coming period will be to become one of the most attractive countries for setting up production for export without customs duty to other countries.

The free trade agreement between Serbia and Belarus envisages mutual removal of the customs duty and other taxes for all products subject to these taxes, except sugar, alcohol, cigarettes, used cars, buses and tyres, which will continue to be subject to taxation when exported.

Dinkic and Interior Minister of Belarus Vladimir Naumov signed today in Minsk an interstate agreement concerning the temporary employment of citizens of both countries in order to protect their interests while working in the other country. During his visit to Minsk Dinkic also met with President of Belarus Alexander Lukashenko and also held meetings at the Ministry of Economy, the Chamber of Commerce and with Minsk city officials.

At the meeting Dinkic and Lukashenko agreed to set up a business council to enable speedier communication and cooperation between businessmen from the two countries. Serbia's trade with Belarus has been on the increase in the past several years and the current figure of \$64.8 million does not meet Serbia's needs.

First Deputy Prime Minister of Belarus Vladimir Semashko said that the agreements signed today will increase the volume of cooperation and trade exchange, stressing that the foundation of the business cooperation council, as well as the renewed work of the mixed committee, will improve the relations between the two countries.

Semashko emphasised that Belarus is interested in joint investments in the energy sector, telecommunications and agriculture, as well as that it plans to considerably improve housing construction before 2011. The Serbian delegation today visited the tractor factory Minsk Tractor Works (MTZ) factory and held a meeting with factory executives.

Following the meeting Dinkic stated that they discussed possibilities of joint production of tractors in Belgrade at the facilities of the motor and tractor factory IMT, announcing that an MTZ delegation will visit Belgrade in the next two weeks. We could produce very good tractors in line with all European standards and export them to underdeveloped countries, concluded Dinkic.

Source: <http://www.emportal.rs/en/news/serbia/84056.html>

CUTS Comments:

India's total trade with Belarus was \$ 146.4 million in 2007-08. Indian exports to Belarus were concentrated in pharmaceutical products, organic chemicals, tea and rice while India mostly imported fertilizers and defence equipments from Belarus. India has signed five Joint Business Council (JBC) Agreements with the Belarusian chamber of commerce since 1998. In addition, six Memorandum of Understanding (MoU)s have also been signed between Indian and Belarusian companies, mostly those operating in the mining, engineering, automobile, power tools and other heavy equipment industry.

Serbia's exports to Belarus were mostly in tanning, dyeing extracts, pigments, etc; rubber and articles and vehicles other than railways. Considering the absence of overlap in Indian and Serbian exports to Belarus, there is no scope for trade diversion of Indian goods in the Belarusian market. As evidenced by the various MoUs and JBC agreements between India and Belarus, they are more interested in furthering cooperation in mining operations and trade in heavy equipments in the near future.

India exports pharmaceuticals; organic chemicals; sugar & sugar confectionary; and nuclear reactors, boilers, etc to Serbia while exports from Belarus to Serbia are mostly in vehicles, other than railway; mineral fuels, oils, and distillation products and articles of iron and steel. Again, there is no overlap between Indian and Belarusian exports to Serbia. India has also signed a Trade and Economic Cooperation Agreement with Serbia in 2006 with the objective of enhancing trade in information technology, pharmaceuticals and auto parts.

Therefore, Serbia- Belarus FTA is not expected to have any trade diversion effects on Indian goods in both markets.

Food for Thought:

Belarus has a competitive edge in the fields of science and technology, viz. optics, space, and microelectronics, while India's expertise is in IT and related business services. The two nations can contribute to each other's development through mutually beneficial cooperation in the aforementioned areas. Would a comprehensive economic partnership agreement between India and Belarus help facilitate the needed investment flows and service trade between them?

4. Ethiopia, Sudan sign series of cooperation agreements

Ethiopia and Sudan on Wednesday concluded their two-day high level joint commission meeting by signing a number of agreements. Some of the cooperation agreements signed today after the end of the two-day Ethiopia-Sudan Second High-Level Joint Commission Meeting includes - trade exchange, the production of natural glue, and forest development and protection agreements.

The two countries have also signed memorandum of understandings on quality and standard control, and human resource exchange. They have also signed principle of implementation on culture and tourism, youth and sports, health, higher level education and science research sectors.

The agreements were signed by the Ethiopian Foreign Affairs Minister Seyoum Mesfin and Sudanese International Cooperation Minister Al-Tigani Salih Fidail; the Sudanese foreign minister Deng Alor, is in The Hague where he attends the oral pleadings of the Abyei arbitration court. Prime Minister Meles Zenawi and President Omer Hassan Al-Bashir have witnessed the signing ceremony.

Meanwhile, following the end of the joint meeting, president Bashir along with his delegations flew to the northern Tigray region to meet regional officials and also for a prayer at the historic AL-Negash mosque, located some 70kms north to the regional capital, Mekelle.

Upon arrival at Mekelle's ALULA ABA NEGA airport Al-Bashir was warmly welcomed by regional president Tsegay Berhe, state council members, religious leaders and community leaders. In a dinner invitation at Mekelle's Axum hotel state president Tsegay Berhe said that the people and regional government of Tigray are proud and honored to host the Sudanese delegation.

Tsegay added that agreements reached at the joint meeting between both countries will further enhance and consolidate the existing excellent relation of Sudan and Ethiopia and he said his region will be committed to implement these agreements.

"I would like to assure your Excellency that as one of the adjacent regions of Ethiopia along the common border between our two sisterly countries, the regional state of Tigray will assume any and all of its responsibility to implement the decisions of the Higher Level Joint Commission summit meeting you have concluded," Tsegay said. "We in Tigray have exemplary relations with the eastern areas of Sudan particularly with Kassala and Gadarif states in promoting trade and people to people links."

"We highly value our longstanding co-operation, and we have seen these ties contributing to the strong bilateral relation between the Sudan and Ethiopia." The regional president also pledged to support the program of building infrastructure interconnection between the two countries to link the neighboring regions and to boost regional trade.

"In this regard, the construction of roads linking the regional state of Tigray and the state of Gadarif and Kassala is already underway," he stressed. President Bashir via his representative to his side expressed his pleasure by the warm welcome he honored by the Tigray people and regional government.

His representative added that the government of Sudan highly appreciates Ethiopia's continuous commitment to bring development, stability and security in Sudan particularly and in the region in general. Ethiopia and the Sudan share common history, ancient civilization, and culture of tolerance and understanding, the representative added. The historical linkage of Meroe and Axum is one such testimony to the age old relationship that existed between the Sudan and Ethiopia.

"We are committed more than ever before to consolidate this shared values and fully exploit the potentialities of Sudan and Ethiopia for the common good of our two peoples." Bashir's representative underscored. Al-Negashi is the holy Islamic shrine where the followers of Prophet Mohammed who faced persecution in their own country were given sanctuary and protection by Ethiopia.

Source: <http://www.sudantribune.com/spip.php?article30959>

CUTS Comments:

India's trade volume is much higher with Sudan than it is with Ethiopia. India's total exports to Sudan amounted to US\$ 408 million and total imports from Sudan amounted to US\$ 431.7 million in 2007-08. On the other hand, India exported US\$ 198 million worth of goods to Ethiopia while imports amounted to a meagre US\$ 13.6 million from the country during the same years. India's top five exports to Sudan were nuclear reactors, boilers etc (accounting

for 20% of its exports to the country); iron and steel; electrical machinery and equipment; plastic and articles; and cotton. India's exports to Ethiopia were concentrated in pharmaceuticals; mineral oils, fuels and distillation products; aluminium and articles; and nuclear reactors, boilers etc.

Almost 90-95% of exports from Sudan to both India and Ethiopia consist of mineral fuels, oils and distillation products. However, these products are also India's second biggest export to Ethiopia. With the above agreements in force, there is a possibility of trade diversion that could result in significant losses for India. Both India and Ethiopia export nuclear reactors, boilers etc. to Sudan, and consequently there could be a trade overlap here. Currently a fifth of India's exports to Sudan consists of nuclear reactors and boilers, and due to the geographical proximity of Sudan and Ethiopia, Sudan might prefer to import more of these from Ethiopia instead.

Food for Thought:

Both Sudan and Ethiopia are talking about constructing major road linkages between the two countries. India may have an opportunity to step in here with construction contracts for these road linkages. This could lead to further Indian investment in the two countries with respect to construction, as both countries lack adequate infrastructure. In addition to such investments being economically beneficial, a move like this would also improve India's image in the region.