Dossier on Preferential Trade Agreements

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1. S Korea to ratify EU free trade deal soon

South Korea's parliament will swiftly ratify a free trade agreement (FTA) with the European Union, its Speaker Kim Hyong-O said Wednesday.

"I want the South Korea-EU FTA to be ratified at the earliest possible date," he told journalists.

"When the government calls for the ratification of the deal, the National Assembly will pass it much faster and with much less controversy than it has in the case of the FTA with the United States," he said. Swedish Prime Minister Fredrik Reinfeldt, whose country holds the EU's rotating presidency until December 31, said in July the European side could finalise the pact before the end of the year.

EU member states have given broad backing to the agreement but are still to fully endorse it, diplomats in Brussels said last month.

The two sides in March reached a deal on most points but follow-up talks failed to settle two outstanding issues - duty drawback and rules of origin.

South Korea wants permission to refund import tariffs to manufacturers that use imported materials to make products for export. Brussels says this would give them an unfair advantage.

On rules of origin, South Korea wants items made at a Seoul-funded industrial complex in North Korea to be treated as South Korean goods.

Also, since South Korean manufacturers import many parts from China and elsewhere, the two sides are trying to agree what percentage of a finished item must be locally made.

The US and South Korea signed a trade pact in June 2007 but the legislatures of both countries must ratify it.

Opposition lawmakers in April scuffled with ruling party members in a vain attempt to stop a parliamentary committee approving the bill. They say it is premature to act until the US side appears better disposed towards it. The full legislature must now ratify it.

"Once the US sends us a positive sign on the FTA, we will be able to ratify the FTA without delay," Kim said.

President Barack Obama said in June he was "committed" to moving ahead with the deal but declined to set a timeframe.

While running for the presidency last year he was critical of the pact, saying South Korea should give greater access to US cars.

Source: http://www.businessweek.com/globalbiz/content/aug2009/gb2009085_860342.htm

CUTS Comments:

The South Korea EU FTA which is to be ratified by the end of this year could have certain implications for India since both of these parties are major trading partners of India. India's exports to South Korea stood at US $ 2,853 while imports amounted to US $ 6,040 in 2007-08. India's major exports to South Korea are petroleum oils; zinc ores and concentrates; cotton yarn; soybean oil-cakes; organic chemicals; iron ores and precious stones while major EU exports to South Korea are machinery; cars; parts of motor vehicles and electronic equipment.

There are no significant sectoral overlaps in Indian and EU exports to South Korea. Moreover, India and South Korea have recently signed a comprehensive economic partnership agreement (CEPA), wherein South Korea will remove duties on 93 percent of Indian products phased over eight years after its ratification. The aforementioned CEPA is particularly expected to benefit the high skilled Indian service sector workers.

The EU is India's major trading partner and top exports to the region are apparel and clothing; mineral fuels; pearls, precious and semi-precious metals; organic chemicals; machinery and mechanical appliances; electrical machinery; footwear; iron and steel products. On the other hand, South Korea exports cars; electrical appliances; cruise ship, cargo ship and parts and accessories of motor vehicles to the EU.

While there are no significant sectoral overlaps in Indian and South Korean exports to the EU, India based car makers have been concerned about the possible displacement of their exports in the EU market. Under this FTA, Korean car makers will be exempt from paying the 10 percent duty levied on imports into the EU while Indian automakers still have to pay 6.5 percent of duties. 3.5 percent of the remaining duty cost (out of 10 percent) is offset by a *government incentive provided to Indian auto makers. Hyundai Motor India exports 50 percent of the manufactured cars, out of which more than half are destined for Europe.*

Food for Thought:

Under the South Korea- India CEPA, Korean automobile components are expected to receive gradual tariff cuts from the current 12.5 percent to a low 1 percent within the next eight years. This arrangement has been welcomed by the Indian car industry, as they foresee a reduction in their cost of production due to savings in material costs. Could this help Indian auto exporters offset the cost disadvantage they face in terms of higher duties vis-à-vis South Korean car exporters in the EU market?

2. Swiss firms eye Japanese free trade bounty

Companies are assessing how they could take advantage of a Free Trade Agreement (FTA) with Japan that comes into effect on September 1.

It has been hailed as Switzerland's most important economic pact since the 1972 FTA with the European Community (EC). It is the first such deal that Japan has signed with a country outside the Asia-Pacific region.

The agreement aims to slash tariffs on a range of goods, reduce red tape for companies, enhance services and set up a model for e-commerce.

Switzerland already enjoys a booming trade partnership with Japan, the world's second-largest economy. Swiss exports grew 4.8 per cent last year, totaling more than SFr7 billion ($6.56 billion), while Japanese goods to the tune of SFr4.1 billion made the return trip (up 18.2 per cent).

Martin Herb, managing director of the Swiss-Japanese Chamber of Commerce, said that a lot of Swiss companies have been in contact since the FTA was signed in February.

Chocolates and Bonsai

"The speed and timing of this agreement is significant. Companies have to be more active during times of recession and expand into new markets," he told swissinfo.ch.

"The FTA has drawn a lot of publicity and a number of companies are looking at Japan for the first time. We could see more small and medium-sized enterprises doing business in Japan as a result."

However, he added that it was too early to gauge precisely how much impact the agreement would have on Swiss firms or exports. Herb believes the advantages would show a steady, long-term positive effect for both countries as opposed to a sudden explosion of trade.

Switzerland has calculated that the reduction of tariffs would deprive customs of SFr15.7 million per year, but that would be more than offset by an estimated SFr100 million savings windfall for Swiss exporters to Japan.

Some of the more obvious winners could be Swiss industrial companies, the cheese, meat and chocolate industries.

From the Japanese side, electronic goods and car manufacturers, particularly environmentally friendly models, stand to gain. There is, in addition, an improved market for selected agricultural products such as Bonsai trees and Sake rice wine.

Stepping stone

The FTA also has a symbolic significance for Japan as the first such pact signed with a country outside its own geographical region.

"[It] is epoch-making for both countries from the standpoints that Switzerland is the gateway to Europe and that Japan is the gateway to Asia," Michiaki Watanabe, director general of the Swiss branch of the Japanese External Trade Organisation (Jetro), told swissinfo.ch.

"Japan's business community will be watching closely, as this pact is something of a model case for future economic partnerships with developed countries."

Economic gloom

Japan is exploring the viability of trade agreements with larger economies, such as the European Union, and the Swiss deal could prove a useful testing ground. The dearth of direct competition between Swiss and Japanese firms was another reason that the deal was concluded so quickly.

One potential hiccup to the immediate benefits of the FTA is the parlous state of the global economy, with Japanese firms appearing to have been hit harder than their Swiss counterparts. Japanese exports to Switzerland sank 25 per cent in the first three months of 2009 while Swiss exports to Japan saw a 13.7 per cent increase.

But the latest economic figures show Japan's gross domestic product (GDP) grew 0.9 per cent in the second quarter, prompting hopes that recovery is on the way.

"The government's economic stimulus measures are showing results at last," Watanabe said.

Source:
http://www.swissinfo.ch/eng/business/Swiss_firms_eye_Japanese_free_trade_bounty.html?siteSect=161&sid=11138833&cKey=1251697967000&ty=st

CUTS Comments:

Japan is the sixth largest investor and the largest bilateral donor in India. India's exports to Japan amounted to US $ 3.8 billion while imports were at about US $ 6.3 billion in 2007-08. 21 percent of Indian exports to Japan are concentrated in petroleum oils, followed by diamonds (11 percent); iron ores and concentrates (9.3 percent); crustaceans; soybean oil cakes; organic compounds and cotton yarn. On the other hand Switzerland exports pharmaceutical products; organic chemicals; clocks and watches; pearls, precious stones and metals; nuclear reactors, boilers, machinery and electrical equipment to Japan.

Indian and Swiss exports to the Japanese market show a certain degree of overlap. While negotiations for a Comprehensive Economic Partnership Agreement (CEPA) between India and Japan have been going on since 2007, there appears to be plenty of unresolved issues, particularly in agricultural items and services, which could further delay a conclusion of the agreement.

Indian companies, being the world's largest generic drugs suppliers, are eyeing the Japanese market. The Japanese government is undertaking regulatory changes to promote generic drug penetration in a bid to reduce health care costs, keeping its large aging population in mind. Since medicament mixtures are the largest Swiss exports to Japan, there could be some competition for the Indian drug exporters in this regard.

Switzerland is the tenth largest investor in India and trade between the two countries was over US $10 billion in 2007-08, tilted heavily in Switzerland's favour. India exports diamonds; organic compounds; jewellery; clothing; suitcases, handbags and footwear to Switzerland while Japanese exports to the same are dominated by cars; pearls, precious stones; electrical and electronic equipment; organic chemicals and pharmaceutical products. Once again, there are some sectoral overlaps between Japanese and Indian exports in the Swiss market, especially in precious stones and metals. There could be some trade diversion of Indian products in this sector.

Food for Thought:

Japan has emerged as the largest investor in the Indian equity market, recognizing India's potential as an investment destination as well as a strategic partner to counteract China's growing influence in the region. Given that Japan has signed bilateral investment treaties with several countries such as Cambodia, Vietnam, Peru and others in recent years, is there a risk of Japanese investment being displaced from India if the CEPA between India and Japan does not come to a successful conclusion soon?

3. EU signs economic partnership agreement with four ESA countries

The European Union (EU) has signed an interim Economic **Partnership Agreement (EPA) with four countries from the Eastern and Southern Africa regional grouping (ESA), Zambia News and Information Service (ZANIS) reported on Monday.**

Ministers from the four ESA countries signed on behalf of their governments, according to ZANIS.

The countries that have so far signed the agreement include Mauritius, Seychelles, Zimbabwe and Madagascar.

Zambia and Comoros have, however, indicated that they will sign the agreement at a later stage, ZANIS said.

According to a statement issued by the COMESA Secretariat, European Union (EU) Trade Commissioner Catherine Ashton and Swedish Deputy Trade Minister Gunner Wieslander signed on behalf of the EU.

The deal will offer the ESA countries that have signed the agreement immediate and full access to EU markets (with transition periods for rice and sugar) together with improved rules of origin.

The statement quotes Commissioner Catherine Ashton as having said ESA countries will open their markets gradually over the next 15 years, with a number of important exceptions reflecting their development needs.

Ashton explained that the agreement will have a foundation to build a more comprehensive trade partnership that will support the ESA region's work to build diverse and sustainable economies.

She added that it would also bring about a diverse region together under a single trade arrangement with EU, tailored to the specific needs of the region and recognizing its diversity.

Commissioner Ashton has disclosed that she had met with ministers from a wider ESA group states to discuss elements of this comprehensive trade partnership which would cover issues like Services investment agriculture technical standards, trade facilitation among others.

She further noted that on trade and development partnership the agreement would ensure that all imports from countries that have signed interim EPA benefit from duty and quota through free access to the EU from Jan. 1, 2008.

The official has explained that these countries would also liberalize their markets to EU imports over the next 15 years by gradually removing tariffs by between 80 and 90 percent of imports from EU depending on the country.

Commissioner Ashton said other regional countries like Djibouti, Ethiopia, Eritrea, Malawi and Sudan are also involved in the ongoing negotiations for the more comprehensive regional agreement and may join it later, ZANIS said.

Source: http://news.xinhuanet.com/english/2009-09/01/content_11974246.htm

CUTS Comments:

As only four countries (Zimbabwe, Mauritius, Seychelles and Madagascar) have signed the interim EPA, the comments will focus on how trade relations between these countries and the EU will affect India. The EU is India's second largest export destination after U.S.A. with Indian exports to the region reaching US$ 39 billion in 2008. The major exports to the EU are mineral fuels; pearls and precious stones; articles of apparel (knitted and non-knitted); and iron and steel. Its imports from the region (amounting to US$ 44 billion) consist mainly *of nuclear reactors and boilers; pearls and precious stones; electrical and electronic equipment; aircraft and spacecraft; and iron and steel.*

The major export overlap between India and the above mentioned two African countries to the EU market are in articles of apparel (both knitted and non-knitted). Apparel and clothing accounted for 48 and 57 percent of Mauritius' and Madagascar's total merchandise exports to the EU respectively. As a result of the EPA, there may be some trade diversion in this sector, resulting in losses for the Indian textiles and clothing industry which is already reeling under the global slowdown.

Zimbabwe mainly exports edible vegetables; live trees and plants; printed books and newspapers; and tobacco to the EU while exports from Seychelles are concentrated in meat, fish and seafood food preparations; fish and crustaceans; and beverages, spirits and vinegar. Seafood products are also another major export from Madagascar and Mauritius to the EU, while the EU is India's largest market for seafood, accounting for 32.5 percent of total seafood exports in 2008-09. Hence there could be some trade diversion in this sector.

EU's largest exports to both Zimbabwe and Madagascar are nuclear reactors and boilers, accounting for 24 and 19 percent of total exports to each country respectively. Nuclear reactors and boilers also feature in the top five exports from India to both countries. India might lose its market share in this sector because of the EPA. In addition, EU pharmaceutical products were the third largest export to Zimbabwe in 2008, accounting for almost 12.5 percent of its total exports to the country. India's pharmaceutical exports to Zimbabwe accounted for 28 percent of its total exports to the country. Again, there may be possibility of trade diversion here, resulting in losses for the Indian pharmaceutical industry.

Food for Thought:

As mentioned above, there could be possible trade diversion of Indian seafood products as a result of this EPA. Moreover, EU has made catch certifications mandatory for seafood exports while China (India's second largest seafood export destination) is considering on imposing a ban on marine imports from India citing food safety problems. Against this backdrop, should more resources be allocated in modernizing the seafood industry to enhance competitiveness via upgrading capacity in certifications and in tackling sanitary and phytosanitary barriers?

4. Harper, Martinelli Sign Canada-Panama Free Trade Pact

Canadian Prime Minister Stephen Harper and Panamanian President Ricardo Martinelli signed a free trade agreement today, continuing Canada's efforts to bolster investment and trade in the region after negotiations at the Doha round of World Trade Organization negotiations stalled.

The agreement will remove tariffs on 90 percent of goods imported from Canada, with the remaining ones to be phased out over the next decade, Harper's office said in a statement. Canada exported C$128 million ($118 million) of goods such as meat, forest products and flight simulators to Panama in 2008, up 48 percent from 2007, according to the statement.

Harper has said forging tighter links with countries in the Americas and bolstering trade and investment are priorities for North America's second-largest economy. Canadian firms are trying to reduce their dependency on U.S. demand as the recession there and the stronger Canadian dollar make Canadian goods less attractive in U.S. markets.

"A number of these agreements are small, but if you add them up, they become larger and larger," Harper told reporters after the agreement was signed in Panama City. "We want to diversify our trade. We will remain obviously very linked, very integrated to the American economy for the foreseeable future."

Under the agreement, Canada will immediately eliminate 99 percent of its tariffs on imports from Panama, leaving duties on some imports of sugar, poultry, eggs and dairy products. Panama will also end a ban on Canadian beef imports it imposed in 2003 following the discovery of mad cow disease in Canada.

Increasing Trade

Canadian exports to Latin American and Caribbean countries excluding Mexico increased last year to C$8.7 billion from C$6.7 billion in 2007, according to the department of foreign affairs' Web site. A free-trade agreement with Peru came into force on Aug. 1 and Harper's government is pushing opposition parties to approve another agreement it signed with Colombia last year.

"We've all recognized for some time that the future of the Doha round is uncertain," Harper also said. "That doesn't mean to say it's hopeless, but certainly it's stalled. It is in Canada's interest, in a world of expanding trade agreements, to make sure we're part of the game."

Source: http://www.bloomberg.com/apps/news?pid=20601082&sid=a6RpSPiqks5w

CUTS Comments:

Canada's largest imports from the world in 2008 were vehicles other than railway and tramway; nuclear reactors and boilers; mineral fuels, oil and distillation products; and pharmaceutical products. It imported approximately 70 percent of vehicles, 56 percent of nuclear reactors and boilers and 30 percent of mineral fuels from U.S.A. alone. Its strategy to move away from heavily relying on the US market is an understandable one.

India's total trade volume with Canada and Panama in 2008 was US$ 3.7 billion and US$ 318 million respectively. India's main exports to Panama were apparel (both knitted and *non-knitted); other textiles; articles of iron and steel; and vehicles other than tramway while top exports to Canada were apparel (both knitted and non-knitted); organic chemicals; articles of iron and steel; and pearls and precious stones. Panama's exports to Canada in 2008 consisted mainly of fish, crustaceans; coffee and tea; pharmaceutical products, edible fruit; and products of animal origin. There seems to be no possibility of any significant trade diversion for India as a result of the agreement signed by Canada and Panama.*

Food for Thought:

In light of Canada's objective to form agreements with countries other than the US, should India look towards signing a trade agreement with Canada? This may be an attractive option especially when taking into consideration that mineral fuels are India's biggest export, with nuclear reactors, vehicles and pharmaceutical products comprising a significant proportion of its total exports to the world. India could step in and gain some Canadian market share in the aforementioned products that feature heavily in Canada's top imports from the US and the world. Moreover, inclusion of services trade in any such agreement would provide the maximum benefit to India.