

Dossier on Preferential Trade Agreements

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1. ASEAN concludes FTA with Australia, New Zealand

The Association of South East Asian Nations (ASEAN) concluded a free trade accord with Australia and New Zealand at a meeting of economic ministers of both sides on the fringe of the annual ASEAN economic ministers meeting. The accord, which both sides have been negotiating since 2003, will link up the 10-member grouping with the latter's free trade pact.

It was stated in a statement issued after the meeting that the FTA between ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, the Philippines and Vietnam) and Australia, New Zealand would pave the way to enhancing the region's economic integration and acting as an impetus to deepen and broaden the trade and investment among the now twelve participating countries.

The agreement will encompass trade in goods, investment, trade in services, financial services, telecommunications, electronic commerce, movement of natural persons, intellectual property, competition policy and economic cooperation. The free trade agreement is much wider in scope and deeper in coverage than ordinary FTA, thus it is a comprehensive economic cooperation agreement.

The total trade between the two sides rose by 17 percent from \$41bn in 2006 to \$47.8bn last year. Direct investment from Australia and New Zealand into ASEAN has also increased to \$1.1bn in 2007.

CUTS Comments India has successfully concluded FTA negotiations with ASEAN and would sign the agreement later this year. These agreements will pave for the creation of a large common market comprising South East Asian Nations, India and Australasia (Australia and New Zealand), potentially equal in size to the EU (European Union) market.

There is significant overlap between India-ASEAN trade and Australasia-ASEAN trade. Signing of both free trade agreements would neutralise the trade distortion created by any one of these in isolation and the net distortion would be minimal. However, differences in the negative lists and time lines of these treaties would imply that such distortion will not be nil. Australia and New Zealand compete with India in ASEAN markets for agricultural products and some industrial goods (chemicals, electronics, machinery, motor vehicles, etc).

Food for Thought

The FTAs of Australasia and India with ASEAN and the declared intentions of ASEAN to sign FTAs with all three Oriental economic powers, China, Japan and South Korea, should give rise to a grand inter-continental trading bloc (10+3+2+1). It is worth probing how far such a grand alliance would promote trade and investment in countries forming the bloc.

2. Canada and Jordan reach free trade pact

Canada has concluded the negotiations for free trade agreement with Jordan, along with parallel labour and environment agreements which, according to the Canadian International Trade Minister, would go through the legal reviews prior to sending to the Canadian parliament for review and debate, after which the government would introduce draft legislation for its implementation.

The deal will not only eliminate tariffs on the vast majority of current Canadian exports, including agricultural products and industrial goods, to Jordan but will also open up significant opportunities to Canadian firms into the growing Jordanian economy as well as elsewhere in the Middle East and North Africa.

Canadian exports to Jordan stood at \$57mn in 2007, almost doubled from \$29.5mn in 2003. Canada's main exports to Jordan include forest products, electric machinery, agricultural and agri-food products. The Jordanian exports to Canada were \$15.2mn in 2007, which included mainly apparel and agricultural products.

The two sides of the agreement commit to uphold international labour standards on the right to freedom of association and collective bargaining, abolition of child labour, elimination of compulsory labour and elimination of discrimination. The deal also requires both parties to refrain from relaxing environmental laws to encourage trade or investment.

CUTS Comments *India's exports to Canada stood at \$1.1bn in 2006-07, comprising textiles & clothing, chemicals, gems and jewellery, copper, iron & steel and articles thereof. In the absence of free trade arrangements between India and Canada, duty-free export products from Jordan such as textile & clothing including apparel could possibly replace Indian exports to Canada. Similarly, India's exports of commodities like electric machinery, iron & steel and products thereof, chemicals and chemical products etc to Jordan might be replaced by Canadian products.*

The agreement between Canada and Jordan is a reflection of a North-South arrangement, which wraps up, along with goods trade and trade in services, many contentious issues like labour and environment.

Food for Thought

India has very little trade with Jordan (\$600mn in 2006-07). However, it has significant two way trade with Canada (\$2.9bn in 2006-07). Therefore, the important question is whether India should go for a FTA with Canada. Will that neutralise some of the negative impacts of potential competition that Jordan might pose for India in the Canadian market? Second, will that prevent the diversion of Canadian exports previously bound for the Indian market to the Jordanian market?

3. Indonesia and Pakistan negotiating to sign a free trade agreement

Indonesia and Pakistan are currently busy negotiating a free trade agreement, which will help in raising the volume of bilateral trade to one billion dollar mark. The two countries have already signed the Comprehensive Economic Partnership and now the negotiations are underway to sign a FTA.

Currently the bilateral trade is highly favourable to Indonesia; out of total trade of \$919.46mn in 2007 Indonesian exports to Pakistan were \$846.62mn (92 percent of total).

Pakistan's imports from Indonesia include vegetable oils and fats, coal coke and briquettes, paper and paper board, fruits and vegetables (betel nuts), synthetic textile, chemical material and products, chemical elements and compounds, machinery of all kinds, road vehicles, and their parts, yarn and thread of synthetic fibres, iron and steel, tea and mate and crude rubber etc. Pakistan's exports to Indonesia include raw cotton, cotton yarn, cotton fabrics, wheat, muslin, fish and fish preparations, rice, leather, synthetic fabrics including silk, flax, and jute, fruits, vegetables, tarpaulins, sails, etc.

CUTS Comments Both India and Pakistan are important member countries of the South Asian Association of Regional Cooperation (SAARC), which has implemented the South Asian Free Trade Agreement (SAFTA) in 2006. India has also just concluded negotiations of a FTA with ASEAN of which Indonesia is an important member. Also they are (India and Pakistan) are separately negotiating a bilateral FTA with Indonesia. If all these free trade agreements take place simultaneously they will enhance trade creation opportunities for these three countries and not weaken some bilateral trading relations within this set of countries at the expense of others.

Food for Thought

The Grand Intercontinental market mentioned above will also include Pakistan with this additional development. The same questions that were asked above can again be asked but after incorporating the inclusion of Pakistan in this potential market. Will the Pakistan-Indonesia FTA, if it precedes the India-Indonesia FTA divert Indonesian trade from India to Pakistan? If so, then what will be the composition of such diversion is an empirical question, which needs careful assessment.

4. ASEAN and China made substantive progress on an investment pact

Association of South East Asian Nations (ASEAN) and their dialogue partner China have made substantive progress in the negotiations of a bilateral investment pact which is expected to be signed at the Bangkok Summit in December this year. The joint statement issued after the meeting of the Economic Ministers of 10-member ASEAN group with Chinese Vice-Commerce Minister, said about the substantive progress made in the negotiations on the ASEAN-China Investment Agreement and underscored the importance of concluding the Agreement by the 12th ASEAN-China Summit in December 2008.

The investment pact is one of the three components of the bilateral free trade agreement. The other two are the Trade in Goods Agreement and the Trade in Services Agreement which were concluded in 2004 and 2006 respectively.

The conclusion of negotiations on the investment agreement will pave the way to finish of talks on FTA. Furthermore at the meeting both sides finalized two Memorandums of Understanding on cooperation on intellectual property and technical barriers to trade.

Growing at an annual rate of 30 percent the two-way trade between ASEAN and China has increased from \$59.6bn in 2003 to \$171.1bn in 2007. Apart from discussing about the on-going cooperation projects between them, the ASEAN ministers welcomed the Chinese proposal to develop the Pan-Beibu Gulf Rim region and to conduct of a feasibility study on the regional economic cooperation.

ASEAN, a market of over 550mn people boasting total trade of \$1.6tn and a gross regional income of \$1.1tn has also been negotiating on FTA with other dialogue partners at various levels. The ASEAN has successfully concluded the FTA negotiations with Australia and New Zealand and with India. The formal pacts will be signed at the ASEAN Summit to be held at Bangkok.

CUTS Comments *China's trade with ASEAN has increased significantly after their free trade agreements on goods and services came into force. It is expected that two-way investment between ASEAN and China will also rise significantly after this pact comes into operation. Through investment in ASEAN countries China might capture these markets further at the expense of Indian exports and investment.*

Food for Thought

There is a significant overlap between India-ASEAN trade and China-ASEAN trade. Given such similarity, it might be worth examining how far the ASEAN-China investment pact would displace prospective ASEAN or Chinese investment into India and vice-versa.