Dossier on Preferential Trade Agreements

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1. New Syrian-Turkish Economic Ties Forged

Syria and Turkey have recently bolstered economic relations by signing new agreements on trade, investment and finance.

Experts say the growing ties between the neighbouring countries are in part a result of Ankara's ambitions to expand into Arab markets via Syria.

They are also a reflection of Damascus's need to build new regional alliances in light of its deteriorating relations with certain Arab states, they say.

"We have to work as a team to achieve development in both countries," said Syrian prime minister, Abdullah al-Dardari, at a press conference following a joint meeting of Syrian and Turkish economic officials in Damascus in December.

The meeting concluded with a decision to set up an industrial area for Turkish manufacturers in the Syrian industrial city of Hisyah, near the border with Lebanon. The two countries also agreed to establish a centre in Syria to facilitate commerce between the two countries as well as with other nations.

Other decisions included establishing joint banks, coordinating financial and development policies and boosting investments on both sides of the border. The agreement also touched on cooperation in transportation and energy.

"Turkey is seeking, through these economic agreements, to build a regional economic belt extending towards the Arab and Gulf area, after a long history of disagreements [with countries there]," said Munir al-Hamash, a leading economist in Damascus.

He added that Turkey is seeking to play a "pivotal role" in the Middle East and needs Syria's help to access Arab markets.

Turkey is in search of new economic and strategic partners in the region especially since its efforts to join the European Union have failed so far, he explained.

The new bilateral ties in economy and finance mirror the growing diplomatic and political relationship between the two states.

It is a remarkable change considering their past history of mutual distrust. ……….

In more recent years, Damascus has begun to view Ankara as a regional ally which enjoys good relations with the West. It has built ties with Turkey as its relations with Arab states like Saudi Arabia and Egypt have soured.

Last year, Turkey played a role as mediator of indirect peace talks between Israel and Syria.

Meanwhile, the Turkish support for the Palestinians at both official and popular levels during the Gaza conflict was praised in Syria.

Nazim Ekren, Turkish deputy prime minister responsible for economic affairs, told reporters after December's economic meeting that bilateral economic cooperation had reached an "advanced stage". He said strengthening these ties was important for both countries as they tried to cope with the effects of international financial crisis.

Baha al-Din Hasan, the Damascus-based president of the Syrian-Turkish Business Council, said his country is a strong economic partner for Turkey, offering raw materials for industry as well as a trained workforce.

With about a million tons of cotton produced annually, Syria could become a competitive supplier of material for the clothing industry in Turkey, the sixth largest in the world, he said.

For its part, the Turks could provide expertise in areas such as the stock market, banking and e-government, he said. In the industrial field, Turkey could provide technical support to Syrian glass factories and cement production.

Turkish investment last year was estimated at more than 900 million US dollars, according to an official Syrian report, which noted that both countries wish to see this rise substantially over the next five years.

Last year, Syria and Turkey signed free trade agreements abolishing customs tariffs and expanding trade in agricultural products.

Turkey does not tax Syrian imports like crude oil, chemicals, fibres and leather, while Damascus has pledged to gradually reduce tariffs on Turkish imports until they are phased out altogether over the next 12 years or so.

Turkish imports include foodstuffs such as cooking oil, chemicals, fertilisers, soap, leather products, clothes and industrial machinery.

Source:
http://www.iwpr.net/?p=syr&s=f&o=349700&apc_state=henh

CUTS Comments:
In order to boost trade and expand economic cooperation primarily in the Middle East, Turkey has signed new agreements with Syria, which focus on trade, investment and finance. On the other hand, given Turkey's cordial regional co-operation with the West, which can easily act as a gateway to European Union as well as Central Asia, Syria would like to explore the markets there, beef up cooperation and increase economic welfare.

New economic ties coming into effect will provide Syria wider access to Turkey's clothing industry and thereby become a competitive supplier of raw material. However, cotton constitutes bulk of India's exports to Turkey. In order to overcome trade overlap and sustain its existing export growth, India needs *to diversify its exports through product development and market exploration. This applies to products like machinery where our competitors (read: Syria) are expected to do well.*

Syria and Turkey agreeing to expand trade in agricultural products and chemicals has put India in a predicament. It will be closely watched as to how India goes about having closer and improved agriculture and chemical sector co-operation with the former.

Food for Thought: *Can India leverage the greater economic integration involving Turkey and Syria to its advantage? Is it possible for it to meet the greater input requirements resulting from an expansion of trade between these two countries?*

2. European Union, Cameroon sign interim trade deal

The European Union and Cameroon signed a "stepping stone" economic partnership agreement (EPA) trade deal on Thursday pending a broader regional accord with central African states. Like similar interim deals signed with other African countries, the agreement grants Cameroon's exports duty free, quota free access to the EU market, but gives Cameroon 15 years to dismantle tariffs on 80 percent of its imports from the EU.

Cameroon benefits from preferential market access for its banana exports to the EU under a separate scheme being challenged in the World Trade Organisation (WTO) by Latin American growers led by Ecuador.

The EPA deals are WTO-compliant and were originally meant to be signed by the EU with six regional groups around the world before the December 2007 expiry of its Cotonou Agreement with nearly 80 African, Caribbean and Pacific former colonies.

However, talks with most of the six, especially those in Africa, dragged on longer than planned, so those countries standing to lose most from the loss of Cotonou Agreement trade preferences made interim deals with the EU at the end of 2007.

The document signed on Thursday effectively formalised the agreement Cameroon made with the EU in late 2007, the European Union said in a statement.

The accord was similar to one signed in November with West Africa's Ivory Coast, a fellow cocoa and banana exporter.

Talks for a regional EPA with central African countries are some of the most delayed, but officials vowed to press ahead.

"I am strongly committed to pursuing and concluding regional negotiations in Central Africa and this agreement should be seen as a milestone on the path to the successful conclusion of a regional Economic Partnership Agreement with Central Africa," EU Trade Commissioner Catherine Ashton said in a statement.

The accord binds the EU to help Cameroon become more competitive, help its exporters meet EU import standards, and improve customs procedures and its tax regime to ensure that the loss of tariffs does not destabilise Cameroon's public finances.

EU trade with central Africa is worth some 11 billion euros ($14.46 billion) a year, the EU delegation in Yaounde said, with the African region enjoying a surplus due largely to oil exporters Equatorial Guinea, Gabon, Congo Republic, Cameroon and Chad.

Oil accounts for 58 percent of the region's exports to the EU, which also include wood, at 15 percent, and other agricultural products including cocoa and bananas.

EU's main exports to the region are medicines, vehicles and vehicle parts, equipment, cereals and milk derivatives.

Source:
http://www.bilaterals.org/article.php3?id_article=14206

CUTS Comments:
Inking of an EPA between the European Union and Cameroon has conferred large benefits on Cameroon. Providing Cameroon 15 years to do away with tariffs on goods imported from EU seems to be somewhat lenient: a shorter period would have provided better incentives to enhance productivity and competitiveness. Lowering of tariffs and their ultimate abolition it will also enhance Cameroon's dependence on EU for imports of basic goods like medicines, cereals, milk derivatives, etc.

India is EU's 9th largest trading partner (2.1%), whereas Cameroon is positioned at 64 (0.1%). Cameroon does export wood to India and will do the same to EU. Given India and Cameroon's friendly trade relations, which averaged about US$ 32 million per year in the last three years (2002-05), this deal is unlikely to have a significant impact on India.

Correspondingly from the export perspective (Read: India and EU's export to Cameroon) there are going to be a few overlaps. For instance, India does export medicine, cereals and tools to Cameroon and so does the EU. Moreover, Cameroon imports cocoa from India and exports cocoa (locally grown) to EU. Therefore, it is essential that India prepares itself to face challenges such as trade violation, which might arise due to development of such trade. If feasible, we should try strengthening our infrastructure (trade links and air routes) to spread awareness in Cameroon and EU about India's trade potential.

Food for Thought:
Today's energy crisis has informed many of the need for significant investment in clean and sustainable energy. Given Cameroon's rich natural resources and favourable agricultural conditions, India needs to explore trade in the field of solar energy, which will further strengthen and enhance trade ties with the former. This type of economic diversification will aid India in making its presence felt in Central Africa.

3. United States and Oman forge new trade ties

In line with the United States' Middle East Free Trade Initiative, which aims for greater Middle East participation in the areas of trade and investment with the U.S. and other countries, U.S.A entered into a Free Trade Agreement (FTA) with oil-rich Oman on January 1, 2009. The main aspect of the FTA is that the flow of trade between the two nations in consumer and industrial products will be duty-free. U.S. Trade Representative Susan Schwab said the FTA would provide the opportunity to increase exports of commodities such as machinery, optic and medical instruments, automobiles and agricultural products like sugars, beverage bases and vegetable oils.

In addition, U.S.A will be provided extensive market access to Oman's entire services sector, including a "secure, predictable legal framework for U.S. investors operating in the sultanate". The agreement provides a secure legal framework for U.S. and Omani investors, including the effective protection of intellectual property rights. In addition, the FTA aims to effectively enforce labour and environmental laws, so as to ease the business process between the two nations.

The FTA's implementation has come more than two years after the U.S. Congress approved it in mid-2006. The agreement adds to the U.S. list of free trade ties with Israel, Jordan, Morocco and Bahrain, thus promoting its regional free trade initiative with the Middle East. Schwab, in an earlier statement, said the two countries had worked closely to ensure that both the countries' obligations had been met. She added, "We have engaged in this effort as true partners".

Source:
http://news.alibaba.com/article/detail/americas/100035629-1-ustr%253A-oman-free-trade-pact.html

CUTS Comments:

Recent figures have indicated that India was the second largest receiver of non-oil exports from Oman in 2008, importing around $473 million worth of commodities. Trade ties between the two nations strengthened after Prime Minister Manmohan Singh's visit to Oman in November last year. India also ranks as the third largest source for imports by Oman. These imports include machinery and equipment, electrical and electronic items, chemicals, iron and steel products; and more traditional products like tea, coffee, rice and spices. The aforementioned FTA threatens to increase India's trade imbalance with Oman (in favour of Oman), since the U.S. is also looking to export products like machinery and electrical items to the Middle East country. As a result, Oman may look to import these commodities from the U.S. rather than from India. India may need to be more aggressive in exporting these products than they have been, by adopting a competitive pricing strategy and/or improving quality.

Food for Thought

Alternatively, U.S.A. may look to re-brand imported machinery and electrical items from India as their own and further sell them onto Oman in a bid to reduce their own costs. India may have to reformulate certain aspects of their economic relations with U.S.A. that would prevent such a situation from occurring. In addition, the provisions for increased investment by U.S.A. in Oman have the potential to lower U.S.A.'s investment in India, as the former's focus may shift to strengthening new ties with countries in the Middle East with a view to easing tense relations with the region.

4. Switzerland to receive higher investment protection in China

Swiss investors in the Chinese market will be the first to profit from increased legal protection, under the terms of the bilateral agreement signed last month during a visit by Chinese Premier Wen Jiabao. Swiss direct investment in China totals almost CHF5 billion, making it the 15th largest investor in the Asian country. The Swiss government wants to encourage greater Chinese investment in its country through this deal.

In addition to talks on higher investment protection, both nations also agreed to establish a working group to formulate a possible Free Trade Agreement (FTA). The talks between the two governments also covered topics such as human rights, bilateral cooperation in the fields of science and technology and the current economic situation in light of the global financial crisis.

The Swiss also briefly talked about its role in the G-20 talks, where it is not involved directly. Its Federal Council delegation emphasised that it had identified causes of the financial crisis and the need to make amendments in the regulatory area – a topic discussed in the G-20 framework. The Swiss believe they should be a part of these discussions.

CUTS Comments:

China emerged as one of India's leading trade partners in goods at the end of 2007, indicating strong economic relations between the two countries. There is a significant presence of Indian companies in China in a wide array of operations including manufacturing (pharmaceuticals, auto-components, wind energy etc.), IT and IT-enabled services, and banking. Presently, Switzerland's main exports to China include pharmaceuticals, watch making, machinery and chemical products. The aforementioned agreement between the two countries allowing the Swiss higher investment protection can lead to the Swiss setting up pharmaceutical companies in China, thereby reducing India's market share in that industry. Alternatively, if an FTA were to be reached between China and Switzerland, India's pharmaceutical exports and business presence in China could also be harmed.

Previously, Switzerland favoured India over China in setting up businesses because of greater ease of operations. Although the Swiss acknowledged the difficulty in setting up business in India, they still favoured it because of the lack of transparency in the Chinese market and the high level of Intellectual Property Right (IPR) infringements. However, the aforementioned investment protection agreement may make China a better investment destination for Switzerland than India, a situation that could result in a major loss for India.

Food for Thought:

If Indian authorities decide to increase protection for foreign investors setting up business in India, what would be the effects on trade, investment and its domestic economy? Will such a move have a net positive economic impact on India?

Source:
http://genevalunch.com/2009/01/28/china-and-switzerland-investment-protection-signed-free-trade-under-study/