Dossier on Preferential Trade Agreements

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1. Kenya says East Africa, EU Trade pact ready in July

An economic partnership agreement (EPA) between east African countries and the European Union will be concluded in July this year and is expected to enhance investment, Kenya said on Tuesday. The EU has been pushing developing nations to sign individual trade deals to make its long-running preferential arrangements with African, Caribbean and Pacific (ACP) nations compliant with world trade rules.

The ACP, which represents 300 million people, wants to agree a common negotiating platform to get undisrupted trade access to the European market for the whole bloc. But some nations have already struck interim deals to prevent exclusion.

Kenyan President Mwai Kibaki told an investment conference that once the protracted talks were over, trade between the EU and the East Africa Community (EAC) bloc would be enhanced. The EAC bloc is made up of Kenya, east Africa's biggest economy, Uganda, Tanzania, Rwanda and Burundi. The partnership agreement offers EAC exports, except for rice and sugar, duty- and quota-free access to European markets in return for more open entry for European goods and services.

"We expect this to stimulate investments by both local and foreign investors who will benefit from the liberalised trade arrangements with the EU," Kibaki said.

The east African bloc signed an interim EPA ahead of a December 2007 World Trade Organisation deadline for the EU to scrap preferential trade agreements with nearly 80 Africa, Caribbean and Pacific nations. The talks with most of the countries, especially those in Africa, have dragged on longer than planned as activists argued that more access to European products would kill farming and manufacturing on the continent.

SLOWER GROWTH
The EU is the third biggest destination for Kenyan exports after the EAC and the Common Market for East and Central Africa bloc, buying up products like tea, coffee

and cut flowers. The EAC bloc has a combined population of 125 million people and a gross domestic product of $61 billion.

Kenya's $30 billion economy was wracked by post-election violence in the first quarter of 2008, which was closely followed by drought and the effects of the global downturn. The government and central bank have downgraded growth forecasts for this year in light of the slowdown. The central bank now expects 3.6 percent expansion in 2009.

Kibaki urged investors to spend despite the challenges. "The Kenyan economy remains one of the most diversified on the continent offering a wide range of lucrative investment opportunities," he said, while touting his country's growing human capital and strategic access to the wider regional market.

Kenya cut business licence requirements last year and plans to build a second port and invest heavily in roads. Together with the other four EAC partner states, Kenya also plans to build more railway links to connect the region. Kibaki, however, said a number of challenges such as infrastructural bottlenecks, non-tariff barriers and bureaucratic delays, still persist.

Source: http://www.worldbulletin.net/news_detail.php?id=38837

CUTS Comments:

Economic partnership agreements which are essentially schemes to create free trade agreements between the EAC and EU may have potential consequences for India. Merchandise exports from EAC to EU stood at about US$ 2 million while India exported $34 million worth of goods to the same in 2007-08. There appears to be no substantial product overlap between EAC and Indian exports to EU. EAC exports are largely non-manufactured goods while Indian exports have moved up the industrial ladder consisting of labour intensive value-added manufactured products along with other primary commodities. EAC exports are concentrated in live trees, plants, bulbs, roots, cut flowers etc; coffee, tea, spices; fish, crustaceans, molluscs; vegetable, fruits, nuts etc and tobacco products. On the other hand, India exports mineral fuels, oils, distillation products, etc; pearls, precious stones, metals, coins; articles of apparel, accessories, knit or crotchet and iron and steel.

India and EU's export basket towards EAC, however, shows a certain degree of overlap. Some of the top export sectors they share are pharmaceutical products; nuclear reactors, boilers, machinery, etc; plastics and articles; and vehicles other than railways. Since these partnership agreements are based on reciprocity, EU will gain preferential access to EAC markets. Hence, the possibility of trade diversion exists with India's exports being replaced by EU exports in the aforementioned industries. Moreover, EU being EAC's traditional trade partner with long historical and economic ties could also work against India in this context.

Food for Thought:

With India's rising interest in the Africa region, it is also exploring possibilities of a comprehensive economic cooperation agreement with EAC. Can a swift inking of such *an agreement with EAC maintain and promote India's exports to the region thereby undercutting any export market displacement effects from the EU?*

2. Sealing the Deal

After years of political wrangling, Syria's long-delayed Association Agreement (AA) with the European Union is expected to be ratified by EU member states by the middle of the year.

Part of a broad European effort known as the Barcelona Process aimed at boosting relations with Southern Mediterranean countries, the deal is set to give Syrian traders and businessmen improved access to the EU's 450 million consumers. At the same time, European businesses will be able to export to Syria without being subject to the high customs duties that currently protect Syrian firms

A version of the deal was initialled in 2004, but put on hold following the assassination of former Lebanese Prime Minster Rafik Hariri in February 2005. As Europe has moved to re-engage Syria over the past 12 months, concluding the AA has been high on the agenda. On December 14, the Syrian State Planning Commission head Tayssir Raddawi and Deputy Director General of the Directorate for External Relations at the European Commission Hugo Mingarelli initialled a revised agreement in Syria.

"This agreement is very important for Syria," Bahar al-Deen Hassan, a member of the Syrian parliament and the national Chamber of Commerce, said at a press conference following the signing ceremony. "We expect to see Syria be successful in exporting goods to Europe, especially clothes, textiles and agricultural products."

Risks and opportunities

In all, the Syrian-EU AA stacks up at 77 pages in length. As with all deals, however, the devil is in the detail and the agreement's appendixes are a massive 433 pages long. While the deal aims to create a free trade area between the EU and Syria, restrictions and quotas on many goods and industries remain.

While agriculture has been highlighted as an economic sector which will benefit from the deal, a range of quotas and tariffs will still apply to Syrian products at the end of its 12-year implementation period. All of which has many observers questioning the trade benefits Syria will derive from the deal.

"Europe has not opened up its market to agricultural products from abroad, we are still subject to quotas and tariffs," Nabil Sukkar, managing director of the Syrian Consulting Bureau, said. "The agricultural part is not reciprocal. Europe is actually keeping its common agricultural policy and keeping its restrictions on imports."

Complex rules of origin clauses - regulations which set out what can be classified as a Syrian product - may also work to restrict trade benefits. A study by Anja Zorob, a professor at the German Institute of Global and Area Studies at the Ruhr University of Bochum in Germany, found Syria's access to EU markets could be "seriously impeded" by the EU's right to resort to contingent protection measures. In addition, there is a rules of origin regime which stipulates that at least 40 percent of the components in any Syrian good must be made in Syria for it to be eligible for duty free or preferential access to the EU.

“Complex rules of origin or restrictive product and processing standards are threatening to increase transaction costs in trade with the EU,” Zorob said. “In the worst case they may contribute to a full erosion of the preferential access Syrian merchandise exports enjoy on the European market.”

However, Syria will also draw benefits from the deal. A potential rise in the flow of investment dollars, with the agreement working to reduce some of the uncertainties potential European investors have regarding Syria, stands as a major advantage.

“The trade side is not going to be all that beneficial,” Sukkar said. “The more beneficial aspect will be if we see investments coming from Europe to Syria and to South-Med countries. That is the big benefit, because first you benefit from the investment and second you benefit from the technology coming with the investment.”

Syria can also bank on a rise in the amount of EU funding flowing into the country. While the EU remains the country’s largest foreign donor, its contribution is the smallest to any of its Southern Mediterranean partners. For the period 2007 to 2013, the EU has set aside SYP 7.9bn (EUR 130m) for Syria under its European Neighbourhood and Partnership Instrument (ENPI). Impressive, but far behind the EUR 654m set aside for Morocco, EUR 632m to the West Bank and Gaza, EUR 558m for Egypt, EUR 300m for Tunisia, EUR 265m to Jordan, EUR 220m for Algeria and EUR 187m for Lebanon.

Cheaper imports of some goods will result in lower prices to local consumers. Increased competition is also expected to spur efficiency gains among Syrian manufacturers, although many market watchers fear these workshops will be put out of business altogether, unable to compete with their much larger and technologically advanced European counterparts.

It’s a risk the government admits. “Any agreement has risks and opportunities,” Syrian Deputy Prime Minister for Economic Affairs Abdullah Dardari told journalists after the December 14 initialling ceremony. “Undoubtedly some industries will suffer and more competitive industries will emerge.”

The first step

The greatest benefits to Syria under an AA are likely to be those which are not easily assigned a dollar value. Central to this is creating better ties with the international community and paving the way for a lifting of US sanctions.

“Syria was anxious to sign now because it wants to remove or to counter US efforts to isolate it,” Sukkar said. “From that point of view, it’s helpful. The fact that there is an agreement has a psychological effect. When you say I am in an AA it gives confidence to investors.” The agreement could also work to lock in the reform process and give decision makers the excuse they need to push through potentially unpopular reforms.

"Locking in economic reform and enhancing its credibility is generally regarded as one of the most important effects of regional integration," Zorob said. "The AA and the agreements signed with partners in the region, such as the Greater Arab Free Trade Area (GAFTA) and the Turkish-Syrian Free Trade Agreement, are currently the only instruments the government can use to credibly lock in economic reform."

While welcoming the agreement, Sukkar said it should be a first step in the process of creating an Arab-EU free trade market. To do this, the EU's free trade agreements should be linked to the GAFTA.

"Why is this better?" Sukkar asked rhetorically. "Because given an Arab free trade area, anyone from Europe investing in Syria can sell their products in the rest of the Arab world. Without this a European businessman investing in Syria can only sell their products in the Syrian market. With an Arab free trade area the benefit to European investors is much larger so they have more incentive to come here."

Above and beyond any of this, Sukkar said, is the need to rethink the Euro-Med partnership given the significant changes which have taken place in Europe since the Barcelona Process was launched.

"A free trade agreement is in itself not sufficient to upgrade the region to a higher standard of development," he said. "For the agreement to have an impact on the region there should be a commitment on the part of Europe to upgrade the level of development of Southern Mediterranean countries to a certain level that should be agreed upon within a certain period of time." Furthermore, a lack of regional peace will undermine any development gains in the region. "The lack of security in the region is the major obstacle to development," Sukkar said.

"The lack of a regional political agreement regarding the Arab-Israeli dispute has hindered the success of the AA. If we don't give it the necessary priority, then any development will always be threatened by the lack of security in the region."

Source: http://www.bilaterals.org/article.php3?id_article=14647

CUTS Comments:

Articles of apparel and accessories account for nearly one fifth of India's exports to the EU. If the above agreement falls into place, and Syria manages to achieve its objective of establishing a market for its clothes and textiles in the EU, there could be significant trade diversion. This adverse effect on India would mean that its largest exports to the regional block could take a considerable downturn if Syria and the EU establish mutually beneficial terms of agreement on the trade of these products.

In addition, nearly 86% of Syria's exports to the EU are accounted for by crude oil and petroleum products. India's 5th largest export to the EU is that of mineral fuels, oils and distillation products. Again, there could be a possibility of some trade diversion here, however, taken only in the context of Syria, this won't have as much of a negative impact on India as the trade diversion in clothes and textiles.

Food for Thought:

Syria seems to be pushing the forging of this agreement with the EU while EU may also benefit in terms of access to the rest of the Arab countries. How will this impact India's trade relations with the GAFTA (Greater Arab Free Trade Area) countries? Will there be some investment diversion into this Arab region, thereby deterring future EU investment in India?

3. Serbia, Iran to sign free trade agreement

Serbia and Iran plan to sign a free trade agreement in order to increase economic cooperation between the two countries, the economics ministry said Friday.

"We are planning to sign a free trade agreement with Iran which foresees a significant liberalisation of exports which will enable the increase of mutual trade," it said in a statement.

Serbian Economy Minister Mladjan Dinkic met Friday with an Iranian delegation led by Foreign Minister Manouchehr Mottaki, who invited Serbian companies to "take part in infrastructure projects in Iran," it said.

Dinkic said Serbian exports to Iran in 2008 amounted to around 40 million dollars (32 million euros), two and half times more than the year before. Serbia and Iran are reportedly considering cooperation in the oil industry, metalurgy, food trade and pharmaceuticals. Mottaki was also due to meet with Serbia's Prime Minister Mirko Cvetkovic and Foreign Minister Vuk Jeremic.

Source:http://www.iranfocus.com/en/iran-general-/serbia-iran-to-sign-free-trade-agreement-17337.html

CUTS Comments:

India is Iran's 6th largest non-oil export market, while Iran also exports a substantial amount of crude oil and petroleum products to the same. India and Iran are each others' large export markets vis-a-vis Serbia. Trade volume between the two countries reached $ 13 billion in 2007, with Indian exports to Iran recorded at $1.93 billion and imports at $11.05 billion. Indian companies are increasingly investing in Iran in the areas of oil and gas, mining and steel and also in construction projects. One of India's major exports to Iran is nuclear reactors, accounting for 4% of its total exports to the country. Serbia also exports nuclear reactors to Iran. As a result of the above agreement between Serbia and Iran, there could be a trade diversion, where Iran may prefer to import nuclear reactors from Serbia instead, particularly due to the geographical proximity that Serbia and Iran share. This could result in a considerable loss for India in this sector.

India and Serbia had concluded a 'Trade and Economic Cooperation Agreement' in early 2006 with the intention of exploring areas of bilateral trade particularly in *information technology, pharmaceuticals and auto components. However, any progress on this front has been limited.*

Food for Thought:

Alternatively, Serbia may look to re-brand the vehicles (other than railway, tramway etc.) and nuclear reactors that it imports from India as their own and further sell them onto Iran under its FTA with Iran. India may have to reformulate certain aspects of her economic relations with Serbia, which would prevent such a situation from occurring.

4. Zero Duty for Lankan Goods in Pakistan

The Department of Commerce said this week that under the Sri Lanka-Pakistan Free Trade Agreement (FTA), Pakistan has confirmed duty free status to 4,500 Sri Lankan products. "The Government of Pakistan has issued the respective notification implementing the 100% tariff reduction for 4,500 'Sri Lankan originated' products, with effect from 20th March 2009," a Commerce Department official told The Sunday Times FT.

The 4,500 eligible items must show a 35% domestic value addition to get duty free access into Pakistan. With traditional western export markets shrinking due to the global recession, and also becoming increasingly more price competitive, the Department officials are urging local exporters to develop alternative export markets.

Pakistan is the second largest country in the South Asian region with a population of about 200 million. Exports from Sri Lanka to Pakistan have been increasing since the signing of the FTA. In 2007 Sri Lanka exported US$ 57 million worth of goods to Pakistan, a majority using the tariff cuts offered under the FTA. In 2008 this increased to US$ 71.4 million.

However, officials say Sri Lankan exporters are still, for the most part, exporting low value added, 'primary' products to Pakistan, despite the potential for higher returns by exporting industrial goods. The main exports to Pakistan at this point, are betel, leaves and copra.

Source: http://www.sundaytimes.lk/090329/FinancialTimes/ft303.html

CUTS Comments:

Sri-Lanka and Pakistan are India's major trading partners in South Asia. Moreover, trade and investment with Sri-Lanka has accelerated considerably since the Indo-Sri Lanka free trade agreement came into force. Major Indian exports to Pakistan include organic chemicals; cotton; mineral fuels, oils, distillation products, etc; plastics and articles and sugar and sugar confectionary. Sri-Lanka mostly exports rubber and articles; oil seed, oleagic fruits, grain, seed, fruit, etc; edible fruit, nuts, peel of citrus fruit, melons; vegetable plaiting materials, vegetable products; and coffee, tea, mate and spices to Pakistan. Both India and Sri-Lanka are specialized in different sectors with respect to their exports to Pakistan. The potential for trade between India and Pakistan *are far beyond the exiting levels, but whether any progress can be made on this front in the near future is doubtful.*

However, there is some sectoral overlap between the top Indian and Pakistani exports to Sri-Lanka, namely in pharmaceutical products and cotton. Some possibility of export displacement is possible; however, this largely depends on whether the Sri-Lanka Pakistan FTA will be as successful as the Indo-Sri Lanka FTA and also on Pakistan's competitiveness in these sectors.

Food for thought:

Are these separate bilateral agreements between SAFTA partners a positive force towards increasing trade in goods, services and investments, eventually moving towards a more integrated South Asia region? On the other hand, given that concessions in SAFTA are more stringent than those negotiated in bilateral agreements, will such FTAs further sideline this South Asia trading bloc?