

Dossier on Preferential Trade Agreements

May 2008
(Vol. II, No. 5)

Table of Contents

- 1. Peru signs FTA with Singapore and Canada**
 - 2. COMESA to launch customs union**
 - 3. Vietnam, Laos, Cambodia set up economic association**
 - 4. Common Parliament for SAARC**
-

1. Peru signs FTA with Singapore and Canada

Peru, one of the world's fastest growing economies, has signed a bilateral free trade agreement on 29 May 2008, after three years of negotiations, with Singapore with an objective to expand its trade and economic relations in the South East Asian region.

Singapore considers the agreement as 'broad-based and comprehensive' which includes, in addition to 'trade in goods' other issues like rules of origin, competition policy, dispute settlement etc. Over 87 percent of Singapore's exports to Peru will benefit from duty free treatment immediately after the agreement comes into operation, with remaining tariffs to be phased out over a 10 year period. On the other hand, Singapore will provide instant tariff free status to all Peruvian exports into Singapore.

Trade between Peru and Singapore was nearly \$39.2mn in 2007. The trade officials of Peru hope to expand their trade reach in Southeast Asia, the region that is assuming increasing significance as a consumer of natural resources. Peru's export basket includes metals and speciality agricultural products as important components, while its important imports are cars and electronic items.

Peru inked an FTA deal with Canada on the same day as it signed one with Singapore. After the agreement comes into operation, Peru will abolish tariffs on 95 percent of Canadian exports while the remaining tariffs will be eliminated in the next 5 to 10 years. Products such as wheat, barley, lentils, and a variety of paper products are among those earmarked for immediate duty free access. Canada, on the other hand, will immediately end tariffs on Peruvian exports in 97 two digit product lines, with the rest phased out over a three or seven year period. However, no tariff reductions have been provided in the case of dairy, poultry, eggs and refined sugar in which over-quota imports are subject to tariffs.

Canada, after Spain, is the largest investor in Peru with interest in the country's mining industry. In 2007 the total bilateral trade between the two countries was \$2.45bn. Peru views Canada as an important market for gold, metals, textiles etc. After last year's FTA agreement with USA, the Peruvian President, Alan Garcia, has set an ambitious agenda for similar free trade agreements with other countries/blocs like China and the EU; however, this unilateral pursuit by Peru of trade agreements has reportedly irritated some of its partners in the Andean Community regional trade group: Colombia, Ecuador and Bolivia.

CUTS Comments *Though India's trade with Peru is insignificant (\$125mn in 2006-07) the bilateral FTA between Singapore and Peru will affect some of its export interests in Singapore. India's exports to Singapore stood at \$6.06bn in 2006-07 (4.8 percent of total exports) with major items of export comprising of coffee, mineral fuels, chemicals, metals (iron & steel, aluminium, copper etc and articles thereof), textiles & clothing, electrical machinery and equipments, transport equipments etc. These items also feature in Peru's list of exports and in course of time India's exports interests may be affected.*

Although India has an operative Comprehensive Economic Cooperation Agreement (CECA) with Singapore in place since August 1, 2005 by which tariffs have been eliminated on Singapore's exports from India, a large number of non-tariff barriers imposed by Singapore in the name of public safety, health, environment etc. have frustrated Indian exporters. With more choices available to Singapore after the FTA with Peru there is some likelihood that such restrictions may be invoked more strictly.

India's exports to Canada are over \$1.1bn in 2006-07, comprising textiles & clothing, chemicals, gems and jewellery, copper, iron & steel and articles thereof. In the absence of a free trade agreement between India and Canada, the duty-free exports products like textiles, copper, coffee etc. from Peru could possibly replace Indian exports to Canada.

Food for Thought

Should India go in for FTAs with Peru and Canada? Will that neutralise some of the adverse effects of potential competition that Peru might pose for India in Canadian and Singapore markets?

2. COMESA to launch customs union

The Common Market for Eastern and Southern Africa (COMESA) was formed in December 1994 and it replaced a Preferential Trade Area (PTA) established in 1981. In 2000 the member countries of the COMESA established a free trade area (FTA) and are now currently debating over the course of action that is to be adopted for establishing a customs union by the end of this year. In a recent meeting in Nairobi on 14-15 May, 2008, the 19-member country bloc decided to take urgent measures for ensuring a common policy position among member nations in conformity with the requirements of a customs union.

Among key issues to be tracked by the COMESA Council will be the submission of national tariff schedules by all 19 members of the market bloc with a list of agreed Common External Tariffs (CET), drawing up of a list of sensitive products for which country specific tariffs can be levied, Common Tariff Nomenclature (CTN) and transitional periods for alignment .

CUTS Comments *COMESA, covers a geographical area of 12mn sq. kms and has a population of over 389mn; its import bill and export receipts amount to about \$32bn and \$82bn, respectively. With COMESA becoming a customs union the time is ripe for India negotiating a PTA with COMESA as a whole: a common set of tariffs can be negotiated, thus economising on time and cost involved in negotiations and trade.*

Food for Thought

India has had a history of culturally close ties with the African continent. Can India use PTA/FTA/CECA as a tool for gaining access to benefits from Africa's energy resources in the same way as China? This is important from the view of sustaining its rate of economic growth which now exceeds 8 percent per annum on an annual basis.

3. Vietnam, Laos, Cambodia set up economic association

The three important member countries of the Association of South East Asian Nations (ASEAN), Vietnam, Laos and Cambodia, formally established an Association for Economic Cooperation at Hanoi (Vietnam) on 6 May, 2008 to boost support and raise efficiency of economic and investment cooperation among the member countries. The Association is voluntary and aims to gather opinions from member countries on strategies and policies relating to economic and investment cooperation.

The association, which began its operations in August 2007, has now over 500 members, including 200 Vietnamese organisations and enterprises working in Vietnam and Cambodia. To provide opportunities for exchange of information and sharing each other's experiences, the Association has formulated a five-year plan to organise forums and fairs and provide consultancy and legal services pertaining to local and international laws in these three countries.

Vietnam's exports to Cambodia in 2006-07 stood at \$991mn while its imports from Cambodia were just \$202mn, showing a high trade surplus in favour of Vietnam. It is expected that bilateral trade between two countries would reach \$2bn by 2010. The two countries have also agreed to support enterprises investing in specific economic fields and boost economic cooperation between border provinces. In 2007, Vietnamese investment into Cambodia was \$90mn while Cambodian investment into Vietnam was \$5.2mn.

Vietnam and Laos have an ongoing five-year trade agreement and annual trade protocols that have opened legal corridors for economic and commercial cooperation between the two countries. The bilateral trade between Vietnam and Laos has increased from \$167mn in 2005 to \$312mn in 2007 and is expected to go up to \$1bn by 2010. The investment flows between Vietnam and Laos has seen an upward trend; in 2007 Vietnamese investment in Laos reached \$1bn, ranking third among 40 countries investing in Laos. Laos' investment in Vietnam was around \$48.3mn in the same year.

CUTS Comments *The economic cooperation between the three neighbouring developing countries of South East Asia (Vietnam, Laos and Cambodia) which have had border disputes is a welcome step as it would encourage more South-South cooperation. Such endeavours strengthen moves towards peacemaking and thereby bring prosperity to the region as a whole. This, in turn, can facilitate the functioning of this region as a vital cog in the world's trading system.*

Food for Thought

Can such endeavours serve as a model to India and Pakistan in brokering peace through closer economic relations?

4. Common Parliament for SAARC

Participating at a roundtable conference at Dhaka (Bangladesh) on 18 May 2008, on “Future of SAARC: Expectations of Citizens” most of the local and foreign diplomats supported the idea of establishment of a Common Parliament by the 8 member South-Asian Association of Regional Cooperation (SAARC). It was argued that the Parliament could enable SAARC to handle problems regarding food, energy and the environment better and launch collective efforts to face challenges.

Stefan Frowein, the Ambassador of the European Union Delegation, advocated the setting up of the Common Parliament on the pattern of the European Union. He elaborated on how European Union Parliament has resolved common problems/issues, provided funds for improving infrastructure in member countries and in general made a major contribution to the overall development of constituent nations.

CUTS Comments *Through a Common Parliament in the region it would be possible or the countries to work together in a coordinated manner and gather more funds for rapid and adequate development of infrastructure that pertains to more than one country such as the Myanmar-Bangladesh-India-Pakistan-Afghanistan highway or the Iran-Pakistan-India and, Turkmenistan-Afghanistan-Pakistan-India gas pipelines.*

Food for Thought

Will it be possible for countries under diverse political regimes in SAARC to come together to form a Parliament which is similar to the EU Parliament?