Dossier on Preferential Trade Agreements

October 2009
(Vol. III, No. 10)

(For all previous issues of PTA Dossiers, please visit: http://www.cuts-citee.org/PTADossier.htm**)**

Table of Contents

---

1. Colombia and Guatemala finalize free trade agreement

Colombian President Alvaro Uribe and his Guatemalan counterpart Alvaro Colom exchanged notes in Guatemala City Tuesday regarding a free trade agreement between the two countries, which will come into force in a month.

In mid-November, 55 percent of Colombian products exported to Guatemala will be the first not to pay tariffs, reports newspaper El Tiempo.

In 2008, exports from Colombia to Guatemala valued US $185 million, according to Proexport figures. Imports were worth around US $37million.

During the meeting, President Colom asked Uribe to support UIAF's decisions regarding financial controls. Uribe used his speech to emphasize international cooperation to recapture the fugitive leader 'Pablito' who escaped from an Arauca prison last week.

"We hope that all countries will help us in catching these terrorists," he said from Guatemala City, when questioned regarding Venezuela's help in hunting down the guerrilla.

Uribe also made reference to the devaluation of the peso. "It's unfair that the [fluctuations of the dollar] on the market are causing us these problems... it is starting to cause many problems in Colombia. Companies are making enormous competitive and productive efforts ... and then come the vagaries of the market, imposing themselves on the will of men. I reiterate our preoccupation with the revaluation of the peso."

Source: http://colombiareports.com/colombia-news/economy/6367-colombian-and-guatemalan-presidents-finalize-free-trade-agreement.html

CUTS Comments:

Merchandise trade between India and Colombia amounted to US $ 841.59 million in 2007-08, with the balance of trade in India's favour. India's major exports to Colombia are mineral fuels, mineral oils and distillation products; vehicles and part;, cotton; pharmaceuticals and organic chemicals. Guatemalan exports to Colombia are dominated by rubber (accounting for 60 percent of total exports); sugar and sugar confectionery; organic chemicals; nuclear reactors, boilers; and cereal, flour and milk products. There is no substantial sectoral overlap of Indian and Guatemalan exports to Colombia.

India is a much larger trading partner for Colombia compared to Guatemala. While Colombia is seeking a bilateral free trade agreement with India, the Colombia-India Chamber of Commerce has already signed an agreement to attract Indian investment into the country.

On the other hand, the value of merchandise trade between India and Guatemala was only US $ 78.22 million in 2007-08. Indian exports to Guatemala were concentrated in vehicles; pharmaceuticals; cotton; oil seeds; electrical and electronic equipment; rubber and organic chemicals. Colombia primarily exports plastics; mineral fuels, oils, distillation products; chemical products; essential oils, perfumes, cosmetics; pharmaceuticals; printed books and newspapers to Guatemala. Once again, the there appears to be no major sectoral overlap between Indian and Colombian exports to Guatemala.

Food for Thought:

Richly endowed with minerals, coal and petroleum reserves, Colombia is the second largest country in the continent, in terms of population, offering a large market and a diverse natural resource base. The bilateral investment agreement signed between India and Colombia this year will certainly pave way for increased Indian investments into the country, particularly in its hydrocarbon and mining sectors. Improved trade and investment ties with this emerging and influential nation from South America will provide increased economic benefits to India given that underdeveloped transport routes and business related support services are strengthened.

2. Malaysia, New Zealand Sign Free Trade Agreement to Bolster Ties

Malaysia and New Zealand signed a free trade agreement today after four years of talks, seeking to bolster $1.8 billion in bilateral trade as the global economy recovers from its slump.

Under the agreement, which takes effect next year, Malaysia will progressively eliminate import taxes on 10,293 products from New Zealand, including paper, plastics and automotive components, by 2016. New Zealand will scrap the import levy on all 7,238 products imported from Malaysia by 2016, including cocoa products, carpets and tires.

The trade accord is a "significant milestone" for the two countries' relations, Malaysia's Prime Minister Najib Razak told reporters today in Putrajaya, outside Kuala Lumpur.

Malaysia is trying to expand the breadth and depth of its exports to help it recover from its first recession in a decade. The trade pact with New Zealand is the Southeast Asia nation's third, following bilateral agreements with Japan in 2005 and Pakistan in 2007.

New Zealand, one of the world's more open economies, joins the European Union and Australia in seeking greater access to Southeast Asia's markets. Australia and New Zealand's free-trade agreement with the 10-member Association of Southeast Asian Nations will take effect next year, Australia said Oct. 25.

Malaysia's agreement with New Zealand, on which talks began in May 2005, excludes 89 products deemed "sensitive" to Malaysia for health, security or moral reasons, the predominantly Muslim Southeast Asian nation said in a statement today. These include rice, tobacco and alcoholic beverages.

<u>Rice, Contracts</u>

"Malaysia has to consider what it offers to New Zealand as it may be expected to offer the same to other." Irvin Seah, an economist at DBS Bank Ltd. in Singapore, said in a telephone interview today. "This should be a benchmark for other free trade agreements."

The agreement will save New Zealand's exporters more than NZ$10 million ($7.5 million) a year in taxes when fully implemented, the country said in a statement. Even so, New Zealand would have preferred for alcohol to be included in the agreement, Prime Minister John Key said in an interview today.

"New Zealand has got a very burgeoning wine industry," he said in Kuala Lumpur. "We are doing very well in that regard, and Malaysia is just starting to buy more wine from New Zealand. That would have been nice to have been part of the agreement."

Malaysia's reluctance to open its rice market and increase access to state contracts were among issues that caused negotiators to miss a U.S. deadline to conclude talks on a free trade agreement in 2007.

Education, Tourism

Malaysia also offered commitments to New Zealand in services industries including private education, environment, tourism and veterinary services. New Zealand included services incidental to mining, engineering and mailing. Both countries also agreed to undertake a variety of economic cooperation programs spanning areas from forestry to healthcare.

"As Malaysia becomes a knowledge-based economy, you would expect services to take a more important role," Seah of DBS said. "There should be more room for further liberalization and competition in the services sector."

Trade between Malaysia and New Zealand surged 46 percent last year to $1.8 billion, with the Southeast Asian nation exporting $1.1 billion and importing about $800 million, according to the trade ministry.

The Malaysian ministry's statement made no mention of government procurement, which hampered free-trade negotiations with the U.S. because of preferential treatment given to the country's so-called Bumiputera, or indigenous, entrepreneurs.

In a press briefing in Putrajaya today, Najib didn't answer a question on whether the New Zealand pact covered government contracts.

Source: http://www.bloomberg.com/apps/news?pid=20601081&sid=a7oc5XYeIUnk

CUTS Comments:

India was Malaysia's 12th largest trading partner in 2008, with total trade between the two countries increasing from US$7.9 billion to US$10.5 billion during 2007 to 2008, registering a growth rate of 32.7 percent. In 2008, India's exports to the country stood at about US$3 billion. Five major exports from India were mineral fuels, oils and distillation products; copper; cereals; organic chemicals; and aluminum. Trade ties between the two countries are likely to strengthen after the completion of negotiations on an impending FTA, and also after the India ASEAN FTA comes into force in January 2010. New Zealand exports dairy products, eggs, honey, edible animal products; mineral fuels, oils, distillation products; cereals; meat products and iron and steel to Malaysia.

Negotiations for a FTA between India and New Zealand have also been agreed after a joint study group ascertained that such an agreement between the two countries would be mutually beneficial. India's exports to New Zealand totaled US$ 203 million in 2008 and were concentrated in aircraft, spacecraft and parts; nuclear reactors and boilers; pharmaceutical product; pearls and precious stones; inorganic chemicals and precious metals. Malaysia's exports to New Zealand are dominated by nuclear reactors, boilers, machinery; mineral fuels, oils, distillation products; electrical, electronic equipment; residues, wastes of food industry, animal fodder and animal, vegetable fats and oils.

It is evident that there may be some scope of trade diversion, wherein Malaysia may prefer to import mineral fuels and oils from New Zealand rather than from India, which could result in big losses for India since this product is its top export to the Southeast Asian country. New Zealand may also prefer to import nuclear reactors and boilers from Malaysia rather than from India, which could again result in losses for India since these products are its second largest export to New Zealand.

Food for Thought:

Given that India is New Zealand's only major trading partner where food and beverages do not figure in its top ten exports to India, New Zealand will attempt to seek market access for its traditional agricultural products via the free trade agreement which has been proposed for negotiation. India can benefit from New Zealand's expertise in agriculture related technology and knowledge on its food processing industry, however, gains to the country will come from access to New Zealand's services sector and from inclusion of investment agreements. Therefore, should India look towards negotiating a comprehensive economic cooperation agreement rather than just a trade in goods agreement with New Zealand?

3. Zimbabwe sign trade agreement with Namibia

Zimbabwe and Namibia on Wednesday signed three agreements at the close of the fifth session of the Joint Permanent Commission meant to strengthen trade and investment and ties between the two countries.

The agreements include the bilateral air services agreement, amendments to the 1992 preferential trade agreement and a Memorandum of Understanding on forestry management.

Industry and Commerce Minister Welshman Ncube, signed the amendments to the preferential trade agreement on behalf of Zimbabwe.

Transport, Communication and Infrastructure Development Minister Nicholas Goche and Environmental and Natural Resources Management Minister Francis Nhema, signed bilateral air services agreement and MoU on forestry management respectively.

In a communique released at the end of the session, the two countries called on the need to establish a joint business forum by business organisations in the two countries.

"In the area of trade, the two parties discussed measures to reduce the cost of doing business between their enterprise sectors. In this regard the two sides signed amendments to the 1992 preferential trade agreement. The two countries also agreed to expeditiously conclude a MoU between their customs authorities to facilitate the smooth implementation of preferential trade agreement," reads part of the communique.

Namibia also agreed to facilitate the establishment of retail outlets by Zimbabwean firms in the country.

"The parties noted the need to promote increased trade and investment between the two countries and undertook to engage their respective business associations with a view to establishing a joint business forum and the conclusion of MoU between the Zimbabwe business council and Namibian Chamber of Commerce and Industry. Namibia agreed to facilitate the establishment of retail outlets in Namibia by Zimbabwe," the two Sadc nations said in the communique.

Zimbabwe also welcomed Namibia's offer of Dry Port Facilities at Walvis Bay and now awaits the signing of the lease agreement before the country can fully utilise the facility.

On agriculture, the two Sadc nations recognised the need to increase cooperation in the area to reduce susceptibility to droughts and other disasters.

"Recognising the importance of agriculture to the economies, the two countries agreed to ensure food security for their people. The two parties agreed to conclude and sign a MoU on agricultural cooperation to cover inter alia, animal and plant health, production, research, food safety, capacity building, coordinated production and joint marketing, agriculture extension services, food processing, food reserve facilities, irrigation and agricultural mechanisation," the communique reads.

The two nations also discussed possible cooperation in the areas of mining, tourism, health, sport, science and technology and promotion of small and medium enterprises and to maintain regular contacts through line ministries to enhance implementation of agreed decisions.

In his closing remarks, the Minister of Foreign Affairs Simbarashe Mumbengegwi said the implementation should be done speedily.

"I am quite confident that the implementation is undertaken in the same spirit of expeditiousness as portrayed in this joint commission. The idea of the joint commission is to bring our people closer and closer together," he said.

Minister Mumbengegwi expressed Zimbabwe's gratitude for the support rendered by Namibia during the country's difficult times.

Namibia through its power utility, Nam Power provided funding for the refurbishment of Hwange Power Station to improve electricity generation.

The Namibian Minister of Foreign Affairs, Marco Hausiku, who cochaired the session with Minister Mumbengegwi, said his country would continue supporting Zimbabwe and push for greater regional and African integration.

"Namibia will always be together with us in all our endeavours in trying to improve the livelihoods of our people, in trying to forge regional integration and in trying to improve trade and investment in our region and in trying to improve integration in Africa," he said.

The sixth session of the joint commission would be held in Namibia next year.

Source: http://www.zimtelegraph.com/?p=3940

CUTS Comments:

India's exports to Zimbabwe and Namibia in 2008 amounted to approximately US$63 million and US$ 96 million respectively. India's major exports to Zimbabwe were in mineral fuels, oils and distillation products; pharmaceutical products; electrical and electronic equipment; nuclear reactors; and other textiles articles. Namibia's exports to Zimbabwe amounted to US$ 3.6 million in 2007 which included residues, wastes of food industry and animal fodder; meat and edible meat; fish and crustaceans; and beverages, spirits and vinegar.

Zimbabwe's exports to Namibia were much higher at almost US$ 15 million, with the major exports being sugar and sugar confectionary (accounting for almost 70 percent of total exports); tobacco and manufactured tobacco substitutes; and coffee, tea and spices. Namibia's main imports from India were inorganic chemicals; aluminum; pharmaceutical products; articles of iron and steel; and vehicles other than tramway and railway.

Looking at these figures, there does not seem to be any significant sectoral overlap between Indian and Zimbabwean exports to Namibia, or between Indian and Namibian exports to Zimbabwe. Hence, increased trade relations between the two countries should not cause significant trade diversion for Indian exports.

Food for Thought:

Increased trade and economic relations between Namibia and Zimbabwe as well as other countries in the region are stepping stones towards greater regional and African integration. Such regional integration helps in building regional infrastructure, improves competitiveness of relevant countries and also promotes good governance which will also benefit Indian exports and investment in the region. Should India play a more pro-active role in facilitating such integration and regional cooperation as this can be mutually beneficial for both India and African countries?

4. Qatar, UK sign agreement to boost trade ties

HE the Minister of State for International Co-operation and Acting Minister of Business and Trade Dr Khalid bin Mohamed al-Attiyah and Prince Andrew, the Duke of York and UK's Special Representative for International Trade and Investment, yesterday signed an agreement to protect investments between Qatar and the United Kingdom.

The agreement is a result of several years of discussions based on the two sides' desire to strengthen bilateral relations, Saud Jassem al-Jufairi, director of Economic Affairs Department at the Ministry of Business and Trade, told reporters.

He noted that HE the Prime Minister and Foreign Minister Sheikh Hamad bin Jassim bin Jabor al-Thani's visit to the United Kingdom has resulted in the signing the agreement in a bid to encourage investments and protect projects between the two countries.

Al-Jufairi underlined that the agreement supports the investments in both counties especially in the sectors of oil and gas. He said that the volume of bilateral trade between Qatar and the United Kingdom reached 1.5bn pounds according to the latest estimates. He expected the trade exchange to increase with the signing of the agreement.

Source:http://www.gulf-times.com/site/topics/printArticle.asp?cu_no=2&item_no=322832&version=1&template_id=36&parent_id=16

CUTS Comments:

India already has Bilateral Investment Promotion and Protection Agreements (BIPPA) with both the U.K. and Qatar in place. In 2007-08, U.K. was the third largest investor in India. The major sectors attracting investments as well as those with increased potential for growth are financial services, automotives, ICT, biotechnology, pharmaceuticals, construction, oil and gas, semiconductors and retail.

The sectors identified with potential for investment in Qatar are construction, oil and gas, transport and logistics, financial and legal services. Both India and Qatar have been identified as U.K.'s trade and investment high growth markets. This initiative seeks to assist U.K. companies in exploring business opportunities in these countries.

There are some sectoral overlaps between India and Qatar, particularly in financial services, construction, and oil and gas, for attracting investments from the U.K.

Food for Thought:

Among many factors, the quality of investment climate is crucial for attracting foreign investment. According to the recently published Doing Business 2010 report, India ranks 133 while Qatar takes the 39th position out of 183 countries. Under the 'Protecting Investors' category, India is relatively better placed than Qatar. However, with the signing of this agreement, where protection of investments is the major thrust, will India see a diversion in U.K. investment flows towards Qatar in select competing sectors?