Dossier on Preferential Trade Agreements

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1. Japan reaches FTA agreement with Vietnam and Switzerland

Japan, which is in talks with India on a Free Trade Agreement (FTA), today struck separate bilateral deals with Vietnam and Switzerland. Japan has found common ground on most issues regarding how to liberalise trade with Vietnam and Switzerland. About 92 percent of Japan-Vietnam bilateral trade (in value terms) will be duty free within 10 years of the accord coming into effect. With Switzerland, tariffs on about 99 percent of the total value of bilateral trade will be eliminated in 10 years.

Switzerland would be the first industrialised country to conclude a FTA accord with Japan, which has so far signed economic partnership agreements with nine countries including Singapore, Indonesia, Mexico, Thailand and Chile and is working towards similar deals with Australia, India and South Korea.

For Vietnam, this will be the first bilateral FTA. Japan launched negotiations with Vietnam in January 2007 and with Switzerland in May 2007.

<u>CUTS Comments</u> *Japan is a major Indian trading partner while India's trade with Vietnam though smaller than that with Japan is quite significant. In 2007-08 India's exports to Vietnam and Japan stood at US$1.6bn and 3.8bn respectively. It is therefore possible that the trade diversion effects of the Japan-Vietnam trade agreement might impact Japan-India and Japan-Vietnam trade. However, this would depend on the item wise overlaps between Indian and Japanese exports/imports to/from Vietnam and between Indian and Vietnamese exports/imports to/from Japan. The final effect would of course depend on whether tariff concessions granted through the Indo-ASEAN (of which Vietnam is a part) free trade agreement neutralise some of the concessions granted through the Japan-Vietnam FTA.*

India's exports to Japan are mainly concentrated in ores, slags, ash; mineral fuels; organic chemicals; cotton; textiles, especially apparels and made-ups; gems and jewellery, while iron and steel; copper; aluminum; cotton; miscellaneous chemicals; plastic; rubber; raw hides and skins, etc constitute major items of Indian exports to Vietnam. Vietnamese exports to Japan are mainly coal, crude oil, marine products, garments, textiles, seafood, electric wires, woodwork, while it imports chemicals, textiles, machinery, transport equipment etc. from Japan. The FTA between Japan and Vietnam would impact India's trade interests adversely due to trade overlap with both these countries as Indian exporters will have to face higher tariffs than their Japanese/Vietnamese counterparts.

On the other hand, India is also negotiating an agreement of free trade with European Free Trade Association (EFTA) of which Switzerland is an important member. India's exports to Switzerland were US$615mn in 2007-08, quite insignificant compared to its exports to Japan. India's exports to Switzerland are tea, coffee, cereals, organic chemicals, pharmaceutical products, tanning and dyeing, cotton, apparel, pearls, gems and stones, electric machinery, etc. The trade between Japan and Switzerland is confined to high-tech products. Japanese exports to Switzerland are automobiles and related transport equipments, machines, chemicals, pharmaceutical products, etc, while it imports from Switzerland wristwatches, chemicals, pharmaceutical products, jewellery, machines and instruments, etc. In other words, there is some competition between Indian and Japanese products in Swiss markets. The Swiss-Japan FTA would imply that Indian exports to Switzerland might lose to rival Japanese exports till India signs and operationalises the mentioned agreement with EFTA.

<u>Food for Thought</u>

Will Japan's FTA with Vietnam stimulate Japanese investment in Vietnam? Is there a possibility of that crowding out Japanese investment in India? Will India's FTA with Japan prevent that crowding out?

2. China signs zero-tariff trade deal with Senegal

China has inked a trade deal with Senegal to offer zero-tariff treatment to more than 400 categories of goods imported from Senegal. Thus, such goods have increased in number from 190 in 2005 to more than 600 now. The Chinese Ambassador, Lu Shave signed the agreement on Friday, 31st October, 2008 with Senegalese Minister for Commerce, Mamadou Diop in Dakar, Senegal's capital.

The trade deal will elevate the bilateral trade and economic ties to a new level and will also foster people-to-people exchanges between the two sides. Friendly relations, based on bilateral cooperation in various fields, particularly in trade and economy, have been booming since China and Senegal resumed diplomatic ties in October 2005. Senegalese people are now running businesses or have started their own enterprises in China. This deal will encourage Chinese businesses to invest more in Senegal.

At the Beijing Summit of the China-Africa Cooperation Forum in 2006, the Chinese government pledged to further open China's market to exports from Africa's least developed countries by raising the number of products enjoying zero-tariff treatment, and this trade pact with Senegal is in line with the above decision.

<u>CUTS Comments</u> *China has of late become a very important trading partner of India. India's exports to China rose from US$8.29bn in 2006-07 to US$10.83bn in 2007-08. On the other hand, India has very limited trade with Senegal. In 2007-08 Indian exports to Senegal stood at US$198mn. The China-Senegal FTA may adversely affect India as its exports to China may be adversely affected by rising Senegalese exports to China.*

<u>Food for Thought</u>

Though India's trade relations with Senegal are not important, however, it is an empirical question as to whether Chinese FTAs with African countries are associated with a diversion of Chinese investment in India to African countries like Senegal.

3. Indonesia-Malaysia sign investment and trade agreement

Indonesia and Malaysia had signed the first Joint Investment and Trade Committee (JICT) agreement to improve trade and investment between the two countries. The Trade Ministers of the two countries, while signing the agreement on 29th October 2008, said that the two countries have agreed to revise the 1970 border trade agreement as soon as possible. Both ministers also discussed problems relating to trade and investment cooperation, including a regulation which gave a right to Indonesia to inspect Malaysia's ceramic exports to Indonesia. Malaysia also agreed to discuss issues regarding 'countries of origin' certification as long as it is based on the common effective preferential tariffs (CEPT) scheme for AFTA (ASEAN Free Trade Area). Both countries also talked about improving cooperation in services, which benefit both countries, like the tourism sector.

CUTS Comments *Both Indonesia and Malaysia are significant trading partners of India. Indian exports to Indonesia and Malaysia amounted to US$2.16bn and US$2.57bn respectively in 2007-08. India imported US$4.8bn and US$6.1bn worth of goods from Indonesia and Malaysia respectively in that year. Thus, India has a large trade deficit with both Indonesia and Malaysia. While vegetable edible oil and mineral fuels and oils constitute two-thirds of total imports from Indonesia, the imports from Malaysia are more diverse consisting of mineral fuels and oils; wood and articles thereof; organic chemicals; electric machinery; vegetable edible oils; nuclear reactors, etc.*

The important commodities exported by India to both countries are organic chemicals, mineral fuels, iron steel, copper, aluminum, motor vehicles, cotton, sugar, etc. Given that India has a comparative advantage in mentioned items vis-à-vis both countries, it is unlikely that trade between these two countries facilitated by the FTA between them will have any adverse effect on India's export trade to these countries. The trade between Indonesia and Malaysia has been mainly informal due to lack of a well defined border. However, the volume of bilateral trade between the two nations reached US$6.88bn in the first eight months of this year, with a surplus of US$1.4bn in favour of Indonesia.

Indonesia and Malaysia are the two most dominant member countries of ASEAN (Associaton of South East Asian Nations) with which India is in the final stage of signing a free trade agreement. At the same time India is also negotiating a free trade agreement with both Indonesia and Malaysia individually. Till India signs and operationalises these FTAs it may lose out due to higher tariffs and non-tariff barriers faced by Indian exporters to these countries.

Food for Thought

Will having in place such bilateral FTAs along with regional trading arrangements like the ASEAN ultimately lead to the formation of a Grand Asian Common Market similar to the EU in Europe? How far would such a grand alliance promote trade and investment in Asian countries?

4. Bangladesh-Bhutan trade accord in November

Bangladesh and Bhutan are going to sign a free trade agreement in November with a view to boost trade between the two countries. Further progress on the deal can be made after it is vetted by Bangladesh's Ministry of Law Affairs and after its approval the draft agreement will be sent to the advisory Council for approval.

The Bhutanese Minister for Economic Affairs is expected to visit Bangladesh to attend a business conference of the Dhaka Chamber of Commerce and Industry during which the two sides are expected to ink the deal.

Bangladesh and Bhutan exhibit very little bilateral trade, which always remains in favour of the latter. According to the available trade data during July 2007-March 2008 Bangladesh imported goods worth US$10.80mn from Bhutan while its exports to Bhutan amounted to only US$0.78mn. The major items Bangladesh imports from Bhutan are vegetables and mineral products, chemicals, prepared foodstuffs, beverages, fruits, vinegar, tobacco, timber, wooden products and textile items. Bangladesh mainly exports woven garments, computer accessories, dry food and frozen besides pharmaceutical products.

Bangladesh and Bhutan have discussed and agreed that Tamabil port will be used as an entry and exit point and necessary measures will be taken immediately in this connection. The two sides agreed on the need to build linkages between respective standards and testing organizations for working towards the ultimate objective of mutual reorganisation of standards.

<u>CUTS Comments</u> *All three countries, India, Bangladesh and Bhutan are important members of South Asian Free Trade Area (SAFTA). In addition, India has a trade and investment treaty with Bhutan. Bhutan is a landlocked country depending largely on India for its international trade operations. India is a very important trade and investment partner of Bhutan. India's exports to Bhutan stood at US$86.65mn in 2007-08, up from US$57.46mn in 2006-07, while India's imports from Bhutan were US$194.38mn and US$141.33mn respectively for these years, thus showing a huge trade surplus in favour of Bhutan.*

On the other hand, Bangladesh faces huge a trade imbalance with India. In 2007-08, Bangladesh's exports to India stood at US$257mn as against Indian exports to Bangladesh worth US$2916.79mn. Precisely due to this reason the current business and political atmosphere prevailing in Bangladesh does not favour any FTA with India as there are apprehensions (without any meaningful research studies proving the point) of Bangladesh's interests being subordinated to Indian interests.

The Bhutan-Bangladesh FTA will surely affect these trade deficits/surpluses.

<u>Food for Thought</u>

The signing of a trade agreement between Bangladesh and Bhutan may have some adverse impact on India as India may lose out to Bangladeshi textile and garment exports to the Bhutanese market. What effect will this have on the trade balance between Bhutan and Bangladesh, between India and Bangladesh and finally between India and Bhutan?