# FOCUS WTO

A NEWS & VIEWS MAGAZINE

VOL. VI NO. 6

## FREE TRADE AGREEMENTS

MARCH-APRIL 2005

INDIAN INSTITUTE OF FOREIGN TRADE

# FOCUS WTO

VOL. VI NO. 6 • MARCH-APRIL 2005

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# From the Director's Desk

**Prabir Sengupta**

The period since mid-nineties has witnessed an increased interest in regional trade agreements (RTAs) like never before. From about 50 in the beginning of the 1990s, the number of RTAs had crossed 250 in 2003 and according to the WTO, by the end of 2005 the total number of RTAs in force could reach 300. Some analysts have suggested that this surge in the RTAs reflects in part the perceived problems with the multilateral trading system which have pushed many countries to divert their negotiating capital towards RTAs.

It is now well recognized that RTAs could play a crucial role in pursuing the trade reform agenda. *First*, the RTAs and the multilateral trading system governed by WTO rules can develop strong complementarities which could provide the much needed impetus to rid the markets of the barriers, thus bringing substantial gains for the countries involved. In fact, RTAs could play a crucial role in furthering the process of liberalization in areas like agriculture and services and could consequently provide the much needed momentum to the multilateral negotiations.

*Secondly*, a critical aspect of the RTAs is the fact that it allows countries to phase and sequence their liberalization episodes in a manner that can optimize the benefits. It may be argued that this has been one of the factors propelling countries to engage in the RTA negotiations.

*Thirdly*, long standing political and ethnic hostility among various countries can, to an extent, be ironed out through the engagement for the formation of RTAs. By so doing the RTAs can promote closer economic integration between the countries, which would provide the basis for ushering in peace and regional security among member countries.

And, *finally*, setting up of FTAs can promote the spirit of open regionalism which would be complementary to a nondiscriminatory multilateral system, as espoused by WTO. The open regionalism - that is, agreements with low external trade barriers, nonrestrictive rules of origin, liberalized service markets and a dominant focus on reducing transaction costs at borders can reduce many complexities such as restrictive rules of origin of international trading system.

# Emergence of RTAs and FTAs

## Complementing Multilateralism

***Geethanjali Nataraj****

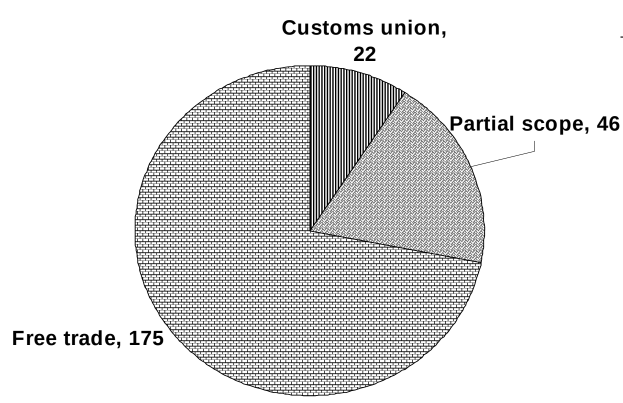
### Introduction

THE exponential growth of RTAs in recent times has led to widespread debate on the issue of regionalism versus multilateralism. In spite of the success of the Uruguay Round and the launching of the Doha round of negotiations, the increase in the number of RTAs continues unabated. In fact, the new RTAs extend much beyond mere reduction in tariffs and granting preferential treatment to members in the group and cover regulatory structures of the parties concerned addressing regulations relating to competition policy, investment, harmonization of standards, etc. Further, the term regional in regional trading agreements has lost its connotation as most of the RTAs are cross regional in nature spanning different continents to build new agreements or creating fusions between existing ones. All but two of the 140-plus members of the WTO are party to at least one – and some as many as 26 – preferential trading arrangements.

As of December 2002, about 250 RTAs had been notified to GATT/WTO, of which nearly 240 were in force by 2004. According to WTO by the end of 2005, the total number of RTAs are expected to reach the figure of 300. It is estimated that by 2007, a further 87 RTAs will be in force, if those being planned or under negotiation are concluded. Trade between RTA partners now makes up nearly 40 per cent of total global trade and new agreements increasingly address issues beyond trade. Chart 1 shows the typology of RTAs in force as of March 2002. The most common category is the free trade agreement (FTA) which accounts for 72 per cent of all RTAs. Partial scope agreements and customs union agreements account for 19 and 9 per cent, respectively. Eighteen of the RTAs identified (17 FTAs and 1 customs union) contain commitments on trade in services in addition to tariff concessions on goods. The trend towards the conclusion of free trade agreements, which require a lesser degree of integration and are faster to conclude, has intensified in recent years. In an FTA each party maintains its own tariffs *vis-à-vis* third parties. Customs unions, which provide for the establishment of a common external tariff and harmonization of trade policy, often, take years to negotiate and have (often) long implementation phases.

*CHART 1*

**NUMBER OF RTAs IN FORCE, AS OF MARCH 2002, BY TYPE OF AGREEMENT**




Another interesting feature of RTAs is the growing intra-regional trade among the major blocs leading to protectionist tendencies. Neo-protectionism is the order of the day. Table 1 below shows the share of intra-regional exports in total exports of major trade blocs (2003).

There is a clear trend towards the larger blocs like NAFTA and

*TABLE 1*

**SHARE OF INTRA-REGIONAL EXPORTS IN TOTAL EXPORTS (%) 2003**

| *Region* | *% share of intraregional exports in total exports* |
|---|---|
| EU (15) | 61.6 |
| NAFTA (3) | 56.5 |
| AFTA (10) | 24.0 |
| MERCOSUR (4) | 11.5 |
| ASEAN (5) | 10.2 |
| SAARC (7) | 5.0 |

***Source:*** www.wto.org

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EU being more protectionist and trading amongst themselves and restricting trade with the rest of the world as compared to some of the developing country RTAs like AFTA and MERCOSUR. For instance, low intra-regional trade in AFTA can be attributed to the fact that ASEAN countries are not interested in enhancing intra-regional trade but their basic objective is to make ASEAN an attractive destination for FDI. Therefore, the objectives of developed and developing country RTAs are quite different. Therefore, the configuration of RTAs is diverse and becoming increasingly more complex with overlapping RTAs and networks of RTAs spanning within and across continents at the regional and sub-regional levels.[1] The simplest configuration is a bilateral agreement formed between two parties. These account for more than half of all RTAs in force and for almost 60 per cent of those under negotiation.[2] The most noteworthy development expected in the next five years is the emergence of a new category of agreement, namely RTAs where each party is a distinct RTA itself.[3] At present, there are no agreements of this kind in force, but several are currently under negotiation and this tendency looks set to intensify in the near future. This is a new trend which is a reflection of the growing consolidation of established regional trading relationships (WTO, 2002).[4]

## Theory of RTAs

The two general concerns with regard to RTAs are: (1) whether RTAs move towards discriminatory regionalism or (2) RTAs are a vehicle to promote multilateralism.

In this context, the theory of international trade says that global multilateral trading arrangements offer the best prospect for reducing barriers to trade and achieving the maximum possible gains from trade liberalization. Preferential Trading Arrangements (PTAs) are said to be a second best solution of achieving trade liberalization in a context where multilateral negotiations proceed slowly. Empirical research shows that PTAs have generally increased trade both among members and between members and non-members, but also supports the conclusion that the effect of PTAs vary significantly, depending upon their particular characteristics. There are several studies with varied views in the literature.

Bhagwati (1992), in particular, has raised the question as to whether RTAs pose a threat to the multilateral trading system, and he has initiated a rapid growth in the economic literature on the subject. Bhagwati (1992) and Krueger (1998) express strong concerns about the negative effects of growing regionalism and they worry that RTAs divert attention from the multilateral trading system. Bhagwati, in particular, stresses the benefits of free trade and rejects the arguments about the need for an alternative to the GATT for countries which wish to liberalize faster. He also raises the questions of the compatibility of RTAs with the GATT/WTO system which has served the world so well for the last fifty years. On the other hand, Baldwin (1997) and Ether (1998) and Lawrence (1999) tend to regard regionalism much more as a compliment to multilateralism (building blocks rather than stumbling blocks). Winters (1996) has argued that RTAs are street gangs: "you may not like them, but if they are in the neighbourhood, it is safer to be in one". He also argues that, it is not possible to determine whether regionalism encourages or discourages evolution towards globally freer trade, and Winters (1998) says that there is no reason to expect a simple answer to this issue. He also believes that powerful coalitions like EU and the NAFTA make negotiations at the multilateral level in WTO more difficult, simply because, trade between the member countries of the RTAs makes them self-sufficient. Thus, even the literature has many schools of thoughts on the debate between Regionalism vs. Multilateralism.

## Rules Governing RTAs in the WTO

Multilateral Trade System allows the formation of RTAs as an exception to the non-discriminatory treatment. This exception got incorporated on the belief that increased trade would result in development; the increased trade is expected to come from decreased market barrier; this decreased market barrier is desirable at the multilateral level; however, even at the regional level the decreased market barrier would lead to increased trade within the region and thus foster development. Thus, the basic objective of both the regional economic groupings and the WTO is essentially the same, i.e. enhancing trade between countries and the same is explained in Article XXI of GATT 1994.

Para 4 of Article XXI of GATT 1994 reads

"The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries who are parties to such agreements."

However, the problematic issue in this comes in the form of trade diversion. Since trade diversion replaces (efficient) non-member producers by (comparatively lesser efficient) member producers in the region, the formation of the regional agreement itself acts as an entry barrier for non-members in the region's market. This entry barrier comes through the preferential trade policy practised by members among themselves.

It is an accepted fact that any regional trade agreement is bound to result in some amount of trade diversion. However, the benefits accruing from a liberalized trade regime for the member countries cannot also be denied. So, the way out is to ensure minimization of trade diversion or to maximize net trade creation. Minimization of trade diversion would to certain extent ensure minimization of extra entry barrier for non-members in the region's market arising out of the formation of the regional trade arrangement.

In fact, the GATT contracting parties explicitly pointed out that an RTA should serve the purpose of facilitating trade among the member countries and should not pose extra barrier for non-members. This has been explained in Para 4 of Article XXIV.

Para 4 of Article XXIV of GATT 1994 further reads

"They also recognize that the purpose of a customs union of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories".

As such, the provisions of forming an RTA were framed. Article XXIV provides the necessary legal grounds for certain arrangements to be exempted from the principle of non-discrimination. A more general exception to the MFN rule – the Enabling Clause (1979) was later incorporated into the GATT system with the intent to promoting the trade and development of less-developed countries.

It has already been pointed out that the formation of an RTA results in discriminatory treatment towards non-members *vis-à-vis* members. As such GATT contracting parties incorporated certain conditions along with the provision of forming RTAs to attempt minimization of the discrimination. Since the conditions are associated with the allowance, a monitoring body is required. That is to ensure that the provisions and the conditions relating to the formation of an RTA are properly implemented, monitoring is required. Thus, the point that comes in is that the multilateral trading system has to be notified regarding the formation of the RTAs. In this context, Para 7 of Article XXIV reads

"Any contracting party deciding to enter into a customs union or free-trade area, or an interim agreement leading to the formation of such a union or area, shall promptly notify the Contracting Parties and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate".

Here the problem comes in the clarification. The time at which members should notify an RTA is not precisely formulated neither homogeneously expressed in WTO rules. In practice, many RTAs are notified when their texts have already been sealed or even when the RTA is already in force. This dilutes the watchdog role of the system. The other problem that is experienced is that a number of RTAs currently in force have not been notified to the WTO, in particular preferential arrangements between developing countries. This is often cited as hindering any comprehensive and precise evaluation of the RTA phenomenon *vis-a-vis* the multilateral trading system. The current practice of raising questions about non-notified RTAs during WTO meetings has been considered insufficient as a means of gathering adequate information. It has been suggested that the possibility of counter-notification of RTAs be provided for.

Therefore, along with Para 7 sub-para (a) of Article XXIV further reads

(b) If, after having studied the plan and schedule included in an interim agreement referred to in para 5 in consultation with parties agreement and taking due account of the information made available in accordance with the provisions of sub-para (a), the Contracting Parties find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the Contracting Parties shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.

This requires a substantial information base regarding the RTA members to be made available to the multilateral trade system. Full statistical information on trade is needed to conduct an RTA examination. The major problem areas found are available statistics cover only a period prior to the RTA entry into force or the very first year(s) following its entry into force, in particular where significant transition periods are not available. Experience has been that statistics are sometimes hard to obtain and may even prove misleading, given the dynamics of the economic integration.

The added problem is that many a time, the trade data are given according to actual trade flows and not on the basis of tariff-line. This hinders the Article XXIV compatibility test of the RTAs. Thus, the first issue comes in terms of clarifying the exact time of notification. That would facilitate the watchdog role of WTO.

The problem has got intensified because of the causal operation of the multilateral trading system also. It has already been pointed out that the multilateral body retains the right to judge the compatibility of the RTA; in case it is found incompatible to Article XXIV, recommended changes have to get incorporated into the regional trading agreements. In reality, however, it is seen that of the GATT working parties formed to review each of the 109 RTA agreements notified to the GATT between 1948 and 1995, only 64 completed their reviews; of those 64, only 6 were able to reach a conclusion on the given RTA compatibility with the conditionality of Article XXIV. This six does not include European Commission and Free Trade Areas of the Americas. Moreover, only two out of the six are still alive. This clearly indicates that the provisions of Para 5 of article XXIV are not being adhered to. (WTO 1995, 16).

Para 5 of Article XXIV of GATT 1994 reads

"Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; Provided that:

(a) with respect to a customs union, or an interim agreement leading to a formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties and parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union of the adoption of such interim agreement, as the case may be;

(b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement as the case may be; and

(c) any interim agreement referred to in sub-paras (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

Para 8 of Article XXIV of GATT 1994 reads

"For the purposes of this Agreement:

(a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that:

(i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and

(ii) subject to the provisions of para 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union.

(b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

The above can be summarized as Free Trade Areas and Customs Unions should

(1) cover "substantially all trade",

(2) not raise the average level of protection against excluded countries, and

(3) in case of an interim arrangement, the member countries should reduce internal tariffs to zero and remove internal quantitative restrictions other than those justified by other GATT articles within a reasonable time-frame.

## Developmental Dimension of RTAs

The developmental aspect can be looked from more than one dimension. In the first place, is the increased trade leading to growth and development? Considering this, the formation of RTAs appears to be growth enhancing. The provision of enabling clause is to enhance the trade among the developing countries which in turn is expected to lead to growth. Moreover, the enabling clause allowed the formation of RTAs among developing countries without the stringent conditions attached with Article XXIV of GATT to mix the liberalization benefits of trade along with the domestic development compulsions of the nations.

The other dimension is the entry barrier for third countries arising out of the formation of the RTAs. This entry barrier results in trade contraction for the non-members in the region's market, thereby having adverse implications on the third countries' external sector.

Coming to the first aspect, it might be mentioned that ASEAN has been formed under the provisions of the enabling clause. As such, at the initial stage, the time-frame for ASEAN ultimately reaching AFTA was more than ten years. Moreover, agriculture being quite important sector for them, it was kept out as the negative list item which basically implies non-inclusion of the sector under regional negotiations for further liberalization. Looking from ASEAN side, it matches with the development dimension. But looking from a third country like India entering the region's market, what are the implications? AFTA coming into being would imply an increase in discriminatory environment as member countries would be trading among themselves in zero tariff while India continues facing previous level of tariff if they are not brought down simultaneously. Keeping agriculture outside the ASEAN negotiations implies similar treatment of ASEAN countries and India in the ASEAN market in agro items. Bringing agriculture under the purview of ASEAN negotiations, while fulfilling the substantial coverage condition, would result in the discriminatory treatment in this sector also. Hence, under the enabling clause, moving towards the fulfilment of the conditions result in deterioration for the third country. Though the fulfilment of those conditions implies a movement towards further liberalization and thus is expected to be welfare enhancing. Moreover, there is no doubt that the welfare enhancing effect for the member countries would outweigh the welfare reducing effects of the third countries. But that does not decrease the adverse implications faced by the third countries in the region's market.

So, what it is that one should address during the coming negotiations? Should the negotiating agenda be prepared on the basis of global welfare? Or should a country be more specific and thus concentrate on its own benefits and disadvantages only. But even then a country like India cannot deny certain amount of benefits coming out of the enabling clause. There might also be certain amount of expected benefit arising as a reaction to the global developments. Coupled with this is the third effect identified by trade theorists as "trade modification effect" of the RTA that might be positive also.

## Old Regionalism *versus* New Regionalism

The old regionalism theory was based on the concepts of trade creation and trade diversion propounded by Jacob Viner in his seminal work on the theory of customs union. The theory discusses the welfare effects of tariff elimination and gives no definitive answers as to which effect will dominate. Though the industries inside the RTA are protected, there is trade diversion and therefore preferential trade arrangements are definitely second best to the multilateral trade liberalization. The opposite is true in case of trade creation. The customs union theory fails to take into account the dynamic effects of a customs union such as economies of scale and a stimulating environment for investment.

On the contrary, new regionalism theory integrates the dynamic effects of economic integration, the interaction between trade and investment and the role of institutional arrangements as incentives for regional integration. The new regionalism is determined by the structural changes in the global economy in the 1990s brought about by globalization. Following successive rounds of trade liberalization in the GATT/WTO, FDI has become much more important in the global economy; investment flows are growing faster than trade flows. Market size is another factor that encourages FDI. As countries develop and become more advanced and efficient in terms of factor endowments, it is expected that there will be a move from intra-industry trade to intra-industry investment as investment costs such as communication costs are much less than trade costs like transportation costs. New regionalism mainly involves a number of small countries that link with a large neighbouring country to reap the benefits of trade liberalization in investment and services.

## India and RTAs

India is a marginal player in the global trade scenario. Its share in global trade is below one per cent. India is also not a part of any RTA that has substantial influence on world trade. As a part of the integration process with the world, signing of the Bangkok Agreement (India, Bangladesh, Laos, Philippines, South Korea and Thailand) in 1975 was the first initiative. The agreement failed to go a long way in achieving its objective of trade expansion. Recent developments like proposals of accession of China to the Bangkok Agreement have given rise to new expectations. India's second initiative on this front is the SAARC preferential trading agreement (SAPTA) with Bangladesh, Nepal, Bhutan, Maldives and Pakistan in 1997. Due to political tension between India and Pakistan and also for reasons like Bangladesh, Maldives and Nepal have very limited export basket to offer to the comparatively larger economies like India, Sri Lanka and Pakistan, India did not achieve much from this regional arrangement.

India is also a part of BIMST-EC with other countries being Bangladesh, Myanmar, Sri Lanka and Thailand. India also entered into a bilateral free trade agreement with Sri Lanka and in 2003 signed an FTA with Thailand which is in the first stage of implemention. Early Harvest Scheme constituting 84 items is the key feature of the India-Thailand FTA wherein tariffs will be reduced on a fast track basis on these 84 items leading to their complete elimination by 2006. India has signed a comprehensive economic cooperation agreement with ASEAN recently and is negotiating FTAs with Singapore, Egypt and also Middle East. A joint study group has also been set up to explore the feasibility of an FTA with China as well. Total SAPTA and BIMST-EC trade constitutes about 1.5 per cent and 2-3 per cent of total world trade approximately. This implies that about 96 per cent of India's trade is outside the preferential zone. More than half of this 96 per cent is with countries that are part of one or more RTAs. For instance, NAFTA and EU constitute 50 per cent of India's exports, 10 per cent goes to ASEAN and another 10 per cent to Japan and South Asia. Therefore on the whole, 70 per cent of India's trade is with countries that are part of strong and well established RTAs. So, with India being part of only SAPTA, Bangkok Agreement and BIMST-EC, and having only FTAs with Sri Lanka and Thailand, the country would have to take a strong view on whether its interest would lie in seeking tighter discipline in WTO on RTAs.

Since India is not a member of any RTA that has strong influence on world trade, India will stand to lose because of trade diverting effects of any RTAs and the new formations where it is not involved. The Indian textile sector for instance, has been observed to be affected, since the US gives preferential treatment and duty free access to textile products from Mexico under NAFTA. The question of what should be India's general stand on RTAs is difficult to arrive at. For this India will have to look at whether RTAs promote global welfare or not, i.e. it has to analyze the extent of trade diversion due to RTAs and its impact on Indian exports. However, all its present agreements with the regional partners have opened the markets for Indian goods in the countries concerned. All these agreements constitute unilateral tariff reduction except the India-Sri Lanka FTA. India's overall trade balance with SAPTA is positive, hence, its existing and recent initiatives in regional/bilateral trade liberalization may help to divert some trade of the countries concerned from their other trading partners in favour of India given their supply capabilities, and therefore may be beneficial to India.

## Regionalism Complementing Multilateralism: A Recent Trend

The WTO is in the spotlight as never before. Its expanded rules, broader membership, and binding dispute mechanism means that the WTO is seen as increasingly central to managing international economic relations. But this also means the cost of failure is higher — with ramifications that can be felt more widely.[5] The inability to conclude the Doha round in the forthcoming 6$^{th}$ Ministerial at Hong Kong, could damage the credibility of the organization. Fresh doubts would be raised about the WTO's suitability as a forum for future negotiations. With the risk of continued deadlock on various issues and diminished prospect of advancement on the multilateral front, the pressure to turn to regional and bilateral agreements could prove irresistible. These fears are in fact a reality with all the regions in the world involved in a regional grouping of one sort or the other.

But on the contrary, it is, of late, being widely discussed that for the first time in last several decades, there is a hope that regionalism can be a powerful compliment to the multilateral system though it cannot be a substitute. This revival of hope in the multilateral process could be attributed to several reasons. *First*, the breakthrough in talks at Geneva, in July 2004 leading to clarity on many issues under negotiation especially with regard to Agreement on Agriculture. With the developed countries, having agreed in principle to reduce farm subsidies, there is a revival of faith in developing economies and a prospect for increasing their agricultural exports to developed markets. *Secondly*, there seems to have developed an approach of synergy between the objectives of the WTO and objectives of regional economic groupings. The basic objective of the WTO is to bring down tariff levels and make global trade freer. The objective of RTAs is also to bring down tariffs among member countries in order to facilitate free trade. Since the inception of the WTO in 1995, developed countries have already reduced their tariff levels between 5-10 per cent and most developing countries are also committed to reducing their tariff rates to average levels ranging from 5-10 per cent by 2010-15. Giving preferential treatment in the form of lower levels of tariffs is the basic reason for countries forming RTAs and if this objective is being fulfilled by the multilateral process with all countries reducing their tariff levels, there is little incentive for countries to join hands to form regional groups. Possibly, in the post Hong Kong Ministerial, if the Doha development agenda nears a successful completion, the urge to form new RTAs to enjoy the benefits of freer trade may possibly decline. It is in fact being suggested, that the benefits of the multilateral process are beginning to trickle down slowly but surely with all the countries actively participating in the multilateral process. The idea of regionalism being a complement to the multilateral system is gaining ground. In the conclusion of a 1995 study by the WTO Secretariat, it says "... To a much greater extent than is often acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open trade."

Therefore, the fears that the efficacy of the WTO will be questioned by the mushrooming of regionalism has been somewhat diluted in recent times. Surely, it appears that RTAs are building blocks rather than stumbling blocks to the world trading system.

## Conclusion

There are no clear-cut answers to the debate on regionalism vs. multilateralism. Both are continuing to exercise a strong and powerful influence on world trade. Multilateralism in the form of the WTO has gained in popularity in the recent years. The number of countries waiting to seek accession and become members corroborates this. At the same time, regional economic groupings have proliferated at a rate and speed never seen before. However, for developing economies, the key to their success lies in reforming their domestic economies as good trade policy begins at home. Whether one follows the regional or multilateral track, reforming the domestic economy is imperative in order to maximize the gains from trade liberalization. Seattle, Cancun or Hong Kong, the bottom line is that countries should follow unilateral trade policies suited to their own domestic needs but within the framework of the changing international trade environment comprising both regionalism and multilateralism.

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## NOTES

[1] RTAs are increasingly concluded among geographically non-contiguous countries. The term "regional" may soon become an incongruity to describe the plethora of cross-regional preferential agreements linking countries around the globe.

[2] This high number of bilateral agreements partly results from regional integration "hub-and-spoke strategies" requiring each "spoke" to conclude a bilateral RTA with the hub. The concept has been pushed a step forward by the EC, which (as a "hub") is often linked to "spokes" which also conclude bilateral RTAs among themselves (e.g. the Euro-Mediterranean Partnership process).

[3] Examples include EC-MERCOSUR, CARICOM-CACM, SACU-SADC, to mention some.

[4] Seminar on Regionalism and the WTO, Trade Policy Division, WTO, April 2002.

5. Director General, WTO in one of his speeches in 2004.

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## NEWS (NATIONAL/INTERNATIONAL)

### Wen Hopes India, China will Work Out FTA Soon

MAINTAINING that establishment of a Free Trade Area (FTA) between China and India has become a "logical agenda" item, Chinese premier Wen Jiabao has expressed the hope that the two sides will begin their feasibility study of FTA soon.

He said trade and economic relations between the two countries were growing rapidly with areas broadening and contents of cooperation deepening. "To move bilateral trade and economic ties to a new level, establishment of FTA has become a logical agenda item."

"A broader and deeper relationship in the economy and trade not only serves the two countries but will also accelerate the process of regional economic integration in Asia. I hope the two sides will soon begin their feasibility study of FTA," said Mr Wen, who visited India in April 2005.

The Chinese leader said trade and economic cooperation between the two countries had grown rapidly. The two-way trade last year reached $13.6 billion, 13 times that of ten years ago, achieving the $10 billion target ahead of schedule. Mr Wen said bilateral cooperation in culture, science, technology, education, tourism and other areas had made a steady headway.

"Our countries see eye-to-eye on and share common interests on many international and regional issues, as demonstrated by the successful strategic dialogue we had for the first time," he said.

(*The Financial Express*, 5 April 2005)

### Indo-China FTA may Take Time

DESPITE China's eagerness in entering into an FTA with India, the two governments may take some more time in reaching a final decision on the issue. The Joint Study Group (JSG) on economic cooperation between India and China, which finalized its report, has suggested that detailed study needs to be carried out exclusively focussing on an FTA to get a clearer picture.

So, when Chinese premier Wen Jiabao visits India in April he would not be signing an agreement on the implementation of an FTA or a Comprehensive Economic Cooperation Agreement (CECA) between the two countries. Instead, he might just set up a follow-up task force, jointly with India, to look at a possible FTA or CECA in more details.

Sources following the activities of the JSG said the group had concluded that it did not have enough time to study the possibility of an FTA between the two countries. While the JSG did find some imperatives for getting into either a Preferential Trade Agreement (PTA), a CECA or an FTA, it underlined the need for more time to study the proposition in details.

"There is need for more research in the area. Sectoral analysis needs to be done. A number of technicalities like whether to go in for a positive or negative list approach also needs to be studied. This requires more time," a trade expert said.

(*The Financial Express*, 4 April 2005)

### Wen Positive about Sino-Indian Free Trade

SUGGESTING that India and China should handle their relations from a "strategic high ground", Chinese Prime Minister Wen Jiabao said a solution to the boundary issue was possible if the two sides showed mutual accommodation "while taking the reality into account."

On the prospects of a Sino-Indian free trade agreement, Mr. Wen hoped the two sides would soon begin their feasibility study in this regard. A "broader and deeper" relationship in economy and trade between the two countries would not only serve them but also accelerate the process of regional economic integration of Asia, he contended while noting that there was a "huge potential" for the two sides to step up trade and economic cooperation.

Relations between the two countries have entered a "new period of comprehensive cooperation" that far outweighed differences, Mr. Wen said in a wide-ranging interview ahead of his four-day visit to India beginning on 9 April. "We both regard each other as important partner of exchange and cooperation enjoying growing political trust," said Mr. Wen, who will hold extensive parleys with Prime Minister Manmohan Singh and other leaders during the visit.

(*Business Standard*, 4 April 2005)

## India, China may Opt for RTA rather than FTA

INDIA and China may opt for a Regional Trade Arrangement (RTA) when the two heads of state, Dr Manmohan Singh and Wen Jiabao, meet in April 2005. It is learnt that both the governments are finalizing the proposal to implement an RTA rather than a full-fledged free trade agreement (FTA).

Both governments, meanwhile, are working on the recommendations of a joint study group co-chaired from the Indian side by Dr Rakesh Mohan. The report, submitted to both governments on 23 March, could form the basis of a possible joint statement by the premiers of the two Asian titans. It is further learnt that India may help China to set up a Sebi-like market regulator. China has no regulatory body at present.

Also, English teachers from India may be encouraged to take up jobs in China in a big way, and there may be a special emphasis on teaching Chinese in some Indian institutes.

Both the countries may also formulate a policy to encourage tourism. India attracts just over 5,000 Chinese tourists every year out of a total of 20 million Chinese tourists travelling out of the country. The government, it is learnt, will give the Chinese language priority so as to create more guides with a working knowledge of Chinese.

The other issues which both the governments have seriously been considering include the signing of a customs cooperation and natural assistance agreement, and simplification of customs-handling procedures.

Considering the growing volume of trade between the two countries, both the governments are likely to increase the frequency of ships. Meanwhile, China and India have decided to increase flights from 7 to 42 per week.

(*The Economic Times*, 3 April 2005)

## Free Trade Pact with Mauritius being Readied

A FREE trade agreement with Mauritius is on the cards. A joint study group had recommended the agreement and the Prime Minister, Dr Manmohan Singh, and his counterpart, Mr Paul Berenger, accepted the suggestion and set up another team to negotiate the terms.

In his address to the Mauritius National Assembly, Dr Singh said that the Comprehensive Economic Cooperation and Partnership Agreement, which the FTA would anchor, would turn a new leaf in the bilateral relationship.

He praised Mauritius for its robust growth, an average of 5-6 per cent over the past decade, which was helped by the remarkable performance of the textile, sugar and tourism sectors.

But he warned that the winds of change were blowing and globalization posed challenges even as it presented opportunities to both countries. He noted that Mauritius had begun to reinvent itself, by nurturing new skills and diversifying into high, value-added products and services including information technology.

Helped by low domestic taxes and a double taxation agreement with India, Mauritius is the largest source of foreign direct investment into India. It would like India to continue with the double taxation cover, but the thinking in New Delhi is that it may be time to take a re-look at it. The arrangement was brought in at a time when India badly needed foreign investment; those conditions have changed and the proposed comprehensive economic cooperation agreements with Sri Lanka and Singapore do not feature such a concession, sources said.

(*The Hindu Business Line*, 1 April 2005)

## China Pitching for FTA with India

CHINA is pushing for an FTA with India which, it claims, would result in the biggest free trade region in the world.

Speaking to media persons at a round table on trade with China organized by the Federation of Indian Export Organizations, Chinese Ambassador to India Sun Yuxi said that while the Chinese government supported the proposed FTA, the business community and experts needed to have detailed discussions on the issue.

Referring to the recent meeting of the Joint Study Group (JSG) on closer economic cooperation between India and China in New Delhi, Mr Yuxi said the Chinese representative in the group had advocated the need to go in for an FTA between the two countries. "It is now for the Indian side to take a decision on the issue," he said.

The FTA could give a greater push to bilateral trade which has already been rising significantly, Mr Yuxi said. Trade between the two countries jumped seven times in the last five years from $2 billion in 1999 to $13 billion in 2004.

The Chinese envoy said that the two governments were working seriously to finalize by the end of the month the programme for the development of India-China trade and economic cooperation for the next five years. The programme is slated to be announced during the Chinese Premier Wen Jiabao's India visit in April 2005.

Mr Yuxi pointed out that in order to facilitate the movement of business people to China, his country had introduced an express visa service last year which allows grant of visas within a day on the payment of some extra charge. "We want India to reciprocate with a similar express service," he said.

On the possibility of increased cooperation at the WTO, Mr Yuxi said besides agriculture there were a number of areas like health, industry and services where the two could work together.

Asked whether the two should work together on pushing Mode 4 of the services negotiation relating to transnational movement of personnel, Mr Yuxi said the two could coordinate policies on how to promote and protect their interests.

(*The Financial Express*, 25 March 2005)

## Importance of FTAs Brings China Back to Hindi Bhai

### Chinese Premier to Kick Off Multi-Pronged Strategy

THIS dragon-elephant tango may rock the world. In what could be music to India Inc's ears, China is dreaming of creating the mother of all free trade areas (FTAs), putting together the markets of the world's two most populous nations. A multi-pronged approach has been adopted towards this end, and at least a dozen agreements to foster Indo-China ties are to be inked when Chinese premier Wen Jiabao comes to visit in April.

Training for at least 100 Chinese engineers every year at Infosys, a Confucius centre of learning at Jawaharlal Nehru University and special facilities at Chinese varsities for Indians are on the cards.

Taking the Hindi-Chini Bhai Bhai slogan to new heights, the Chinese embassy in India has already started issuing express visas to Indian business community, and efforts are on to reciprocate the same benefit to China Inc. Closer ties with India at WTO and other international fora is also high on the minds of the Chinese.

The proposed China-India FTA could grow bigger than existing biggies like the European Union, Nafta, Asean, Apec and Mercosur. Since a number of estimates including the BRICS report of Goldman Sachs have forecast that India and China will become the top economies of the world by 2050, FTA between the two countries will be significant. With the largest GDPs in the world in four decades, India and China could also dramatically change global trade equations, now dominated by the US and the EU.

(*The Economic Times*, 25 March 2005)

## CETMA Seeks Steps to Correct Anomalies Arising out of FTA

WITH the Union Budget not having addressed the issue of an inverted duty structure arising out of the Free Trade Agreement (FTA), the Consumer Electronics and Television Manufacturers Association (CETMA) is planning to send a representation to the Government requesting for steps to correct anomalies arising out of the agreement.

The industry has been affected by the growing incidence of imports of electronics from Thailand in recent months, and feels that domestic investment may suffer when duties come down further to 6.25 per cent in September this year.

Under the FTA with Thailand, customs duty on imports from the country will be halved from the existing 12.5 to 6.25 per cent from September. In September 2006, it will become zero. However, there is no scheme for a commensurate reduction in customs duty on key inputs such as glass parts and picture tubes required in the manufacture of consumer electronics. "To remedy the situation the customs duty on inputs should not be higher than the customs duty on finished products," CETMA has said.

Industry data show that while imports from Thailand to India were at $50 million between September-November 2004, exports to Thailand from India were only about $1,25,000. Top imports from Thailand in the period consisted of colour televisions, auto components and polycarbonates.

A few multinationals, which already have a base in Thailand, have in recent months announced plans to use Thailand as a sourcing base for the Indian market. Industry analysts point out that this trend would only strengthen further unless the anomalies facing the sector are corrected.

(*The Hindu Business Line*, 20 March 2005)

## India Must be Wary of Signing FTAs, Says Sona Koyo's CMD

THOUGH the expectation that the Union Finance Minister, P. Chidambaram, would announce a cut in excise duty on automobiles in the Budget was belied, it did not have any adverse impact on the automobile industry, said Surinder Kapur, Chairman and Managing Director, Sona Koyo Steering Systems Ltd.

Shri Kapur feels that the Government should take industry into confidence before signing FTAs with other countries so that the interests of domestic manufacturers are safeguarded. He said there was an expectation that a reduction in excise duty (to 16% for the automobile industry) would be announced in the Budget. But this did not happen. He said, "There is no justification except to say that excise duties and import tariffs are coming down in general."

Asked whether the Government's decision to leave the excise duty untouched had created an adverse impact on the automotive sector, Shri Kapur said, "No, I don't think it has."

He felt that if the excise duty had been cut, the chances were that the market for automobiles would have expanded. The industry had expanded by more than 20 per cent this year.

"Frankly, you can't complain that our industry is not expanding, therefore please reduce excise duty." On the impact of the FTA signed by India and Thailand on Indian industries, he said, "Everybody recognizes today that this could have been done in a much better way." The industry could have been consulted and it would have probably given some inputs.

He said, "The Government, I believe, did this for political reasons." But it should understand that FTAs are "economic instruments and not political instruments." There is a need to involve the industry to understand the implications of the FTA. He said it is now known after a detailed study (supported by trade figures) that Thailand has an edge over India as far as the FTA is concerned.

(*The Hindu Business Line*, 20 March 2005)

## Cabinet Nod to Ink PTA Annexes with Latin AmericanTrading Bloc

THE Union Cabinet has approved the signing of five "Annexes" of the Preferential Trade Agreement (PTA) with Mercosur, a trading bloc in Latin America.

The signing of the annexes would pave the way to implement the PTA, which is the first step towards negotiating a free trade agreement (FTA).

The Union Cabinet has authorized the Commerce and Industry Minister, Kamal Nath, to sign the Annexes on 19 March, after the conclusion of the G-20 meeting at New Delhi. G-20 was a grouping of developing countries that came together pre-Cancun WTO Ministerial, in order to safeguard their agricultural interests.

Mercosur comprises Brazil, Argentina, Uruguay and Paraguay. It has Chile and Bolivia as its associate members. Mercosur was formed in 1991 with the objective of facilitating the free movement of goods, services, capital and people among the four member countries. It became a Customs Union in 1995.

This trading bloc has become a successful market of about 200 million people, representing about $1 trillion of Gross Domestic Product (GDP) and $190 billion of trade. It is the fourth largest integrated market after the European Union (EU), North American Free Trade Agreement (NAFTA) and ASEAN.

India had a total trade of $1.42 billion with Mercosur in 2003-2004. Indian exports to Mercosur were approximately $0.57 billion in 2003-04 and imports from Mercosur stood at $0.85 billion in the same period.

India's share is currently 0.83 per cent of the global imports of Mercosur. The major items of exports from India to Mercosur are drugs, pharmaceuticals and fine chemicals, transport equipment, inorganic/organic/ agro chemicals, cotton yarn and cotton and manmade fabrics, made-ups, readymade garments, dyes, intermediates and coal tar. The major items of imports into India from Mercosur are edible oils (primarily soya), metalliferous ores, metal scrap and non-electrical machinery.

(*The Hindu Business Line*, 18 March 2005)

## Hike Duty in FTAs: CII

OPPOSING the Government's move to forge FTAs with countries like Thailand and Sri Lanka, the Confederation of Indian Industry (CII) has sought a 5 per cent hike on duties on all imports, apart from raw materials, from these countries.

"The government consulted Indian industries post-facto and did not seek industry inputs on the list of items under FTA," a CII official said.

Under the FTA with Sri Lanka, several companies in southern states are forced to import from the island nation as it is cheaper than buying from other states where a central sales tax of 4 per cent is applicable. "Some edible oil companies are looking at setting up manufacturing bases in Sri Lanka," the official said.

The zero-duty structure will prove to be detrimental as duties on products cannot be increased in the future and this will affect firms that have backward linkages. "A minimum duty of 5 per cent will negate the imbalance in trade," he said.

Some companies are hit by cheaper FTA imports, particularly with Thailand. Exports from Thailand were $50 million in September-November 2004 while India exported goods worth only about $1,25,000.

(*Business Standard* 11 March 2005)

## FTA Flood: Tax Sops to Keep Cos Afloat

THE high decibel fretting by various segments of India Inc., especially manufacturers of white goods and auto components, over the adverse impact of cheaper imports under Free Trade Agreements (FTAs) has finally hit home. The Government has enabled the domestic industry to improve its competitiveness by importing key raw materials like metals and plastics at cheaper rates. The excise duty on ACs has also been lowered as this segment has been complaining about a flood of imports from Asean nations like Thailand with whom India has entered into an FTA.

The reduction in customs duty on metals and plastics would help the affected segments of the domestic industry face competition from cheaper imports. The Government had recently set up a sepcial cell to look at the problem faced by the domestic industry on account of cheaper FTA imports.

The import duty on metals and plastics has been brought down to 10 per cent and this would enable Indian companies source these items cheaper. The previous import duty rates on these items ranged from 15 to 20 per cent. Automobile companies and auto components are expected to benefit on account of this duty reduction. The duties on capital goods and inputs used in the manufacture of electronic goods have also been reduced.

Domestic industry had complained to the Government about a flood of white good imports like ACs and colour televisions from Thailand. Similar import competition from other countries would affect the industry once India implements the FTAs that are in the pipeline now, India Inc warned the FTA Cell.

While further liberalization under the WTO umbrella is no longer on the fast track now, the Government plans to go ahead with FTAs or preferential trade agreements with Asean and Gulf countries, South American nations and South Africa. A large number of FTAs, including one with the US which is India's largest trading partner are being discussed. The domestic industry has to prepare for intense import competition once these agreements are signed.

(*The Economic Times*, 1 March 2005)

## White Goods May Become Cheaper

### Flurry of FTAs & PTAs May Force Government to Cut Import Duty on Raw Materials

IF Finance Minister P. Chidambaram yields to the Commerce and Industry Ministry request on duty cut on the raw materials and components used for white goods to enable domestic manufacturers to withstand intensified overseas competition that might arise due to the FTAs & PTAs that are being implemented by the Government, air-conditioners, refrigerators and other items will become cheaper post-Budget.

In the case of ACs and refrigerators, the Commerce & Industry Ministry has said that the basic customs duty should be reduced to 5 per cent from the current level of 15 per cent to 20 per cent. The raw materials and components used in the manufacture of CTVs, ACs and refrigerators should also be reduced to 5 per cent, accordiong to the proposals submitted to the Finance Ministry for the 2005 Budget.

The proposed duty cuts are timed at providing a cushion to the domestic industry to compete with imports, especially goods originating from the Asean region. A similar package of concessions is already under consideration for the automobile sector.

Apart from reduction in additional excise duty on automobiles and lower customs duty on plastics and metals, the Commerce & Industry Department has also recommended reduction in import duty on lead acid batteries to 5 per cent from the current level of 15 per cent, the sources said. The duty on ball bearings and roller bearings should be reduced to 5 per cent from the current level of 20 per cent as it has been proposed.

The FTA package also includes some other items like bisphenol and epichlorohydride where it has been proposed that the customs duty should be brought down to 3 per cent from the current level of 10 per cent. It is understood that Commerce & Industry Minister Kamal Nath has made a strong case for these duty cuts to ensure any resistance from the domestic industry to FTAs or PTAs. He has argued that the duty concessions should be incorporated in the 2005 Budget since exchange of duty concessions through FTAs, especially under the early harvest scheme, would be speeded up in the near term.

The Commerce & Industry Department feels that the domestic industry would be in a strong position to face overseas competition, particularly white goods from the Asean region, if the proposed duty cuts are implemented. The trade pacts are expected to move faster now since initial hitches like tussles over rules of origin and local content are being sorted out. The Government is looking at liberal trade agreements with the Asean, Singapore, Thailand, the SAARC region, South Africa and Latin American countries and the US. Proposals for similar agreements with South Korea, China, Russia and Pakistan are at a nascent stage. In the case of Sri Lanka, a comprehensive economic cooperation treaty is on cards and the Government is looking at an economic cooperation agreement with Mauritius without including duty-free trade in goods.

(*The Economic Times*, 21 February 2005)

## Origin Laws may Put Textiles in Negative List

THE Textiles Ministry has asked the Commerce and Industry Ministry to keep textiles-related items on the negative or the sensitive list for bilateral free trade agreements until clear-cut rules of origin are adopted. The move aims at ruling out any circumvention.

The rules of origin are formulated to ensure that products imported under trade agreements have a certain percentage of domestic inputs and have gone through a certain level of processing. This is done to protect the domestic industry.

Textiles is extremely sensitive in terms of rules of origin since it is difficult to prove the origin of the fabric once it has been processed. In fact, under the committee on rules of origin at the WTO, nearly 80 per cent of the tariff lines being discussed pertained to textiles. We want to ensure that there is clarity on the issue before textiles are included in the PTAs and FTAs. The Ministry had also raised the issue of customs officials at ports not being equipped enough to deal with the differential tariffs under different rules of origin.

The Government is negotiating different terms under the rules of origin with different countries based on comparative advantage. For instance, the interim rules of origin with the Asean has 40 per cent value addition with no change in tariff heading, while Singapore and Thailand have 40 per cent value addition with change in tariff heading at the four-digit level. On the other hand, the agreement with member countries of the Mercosur - the Latin American trading bloc - has a 60 per cent value-addition norm.

“A more liberal rules of origin with any one country will increase the possibility of goods being brought into India from other countries through that country,” an official said citing the instance of Nepal where products imported from China were being routed to India. In case of textiles, even the conversion to yarn amounts to a 10 per cent value addition with change at the two-digit tariff heading, the offcial said.

(*Business Standard*, 17 February 2005)

## US-Bahrain FTA Opens Window for India Inc

INDIA Inc may do well to set up shop in Bahrain. Reason: The island nation’s free trade agreement with the US allows goods and services originating in the Gulf country a quota-free and duty-free access to the US.

At a seminar jointly organized by the Export-Import Bank of India (EXIM Bank) and Economic Development Board (EDB), senior officials from the board pointed out that with a minimum value addition of 35 per cent in Bahrain, Indian firms could reap the benefits of a quota-free and duty-free access to the US. “To take advantage of the US-Bahrain FTA, Indian enterprises could either set up 100% owned limited liability companies or enter into joint venture with local enterprises in Bahrain. Further, they could also use the country as a gateway to sell their products and services to the Middle East,” said Ganesh Raja, General Manager, EDB.

For Bahrain-based investors, FTAs present a number of benefits, the most notable of which is that the agreements offer investors tariff-free exports of their goods to other countries, significantly increasing the size of their potential markets.

Pointing out that FDI from India to Bahrain amounted to only $12.52 million in the last eight years, S.R. Rao, Chief General Manager, EXIM Bank, said, the US-Bahrain FTA opened up a new vista for Indian enterprises to export their goods and services. FDI from Bahrain to India amounted to $2.4 billion between 1991 and August 2004.

(*The Financial Express*, 11 February 2005)

## India, Sri Lanka to Draw Roadmap for Comprehensive Economic Ties

A Comprehensive Economic Partnership Agreement (CEPA) between India and Sri Lanka covering goods, services and investment is all set to become a reality. It would broadly lay down the scope and contents and specify the time-frame for the completion of its different phases.

Encouraged by the success of the Indo-Sri Lanka FTA which was launched in March 2000, the two sides decided to go in for a comprehensive bilateral agreement including investment and services apart from broadening the basket of goods covered under FTA. The joint study group (JSG) set up to investigate the feasibility of the agreement submitted its report in April 2003.

CEPA would have four components. It would seek to widen FTA to accommodate more goods and improve market access through trade facilitation and removal of non-tariff barriers. The agreement would facilitate trade flows through adoption of additional flexibility regarding the rules of origin (ROO) criteria.

An agreement on trade in services would be an important part of CEPA. It would cover all service sectors and modes of supply under the General Agreement on Trade in Services (GATS) framework.

JSG recommended that the two countries should explore ways to minimize barriers to movement of business people and professionals and facilitate mutual recognition agreements (MRAs) on professional qualifications.

Among the measures to promote investment, CEPA would seek to remove administrative and regulatory constraints. JSG has recommended that the investment board of Sri Lanka should set up a special cell to encourage Indian investment in Sri Lanka. In India, it has been recommended that Sri Lankan investors seeking to make FDI and portfolio investment should be treated on par with other international investors.

Finally, CEPA will include measures for enhanced economic cooperation in transportation, infrastructure, education, tourism and information & communications technology.

(*The Financial Express*, 10 February 2005)

## US Opposes Limited FTA with India

THE US is opposed to entering into a limited FTA with India. The bilateral FTAs should be comprehensive, US Ambassador to India David C. Mulford said in New Delhi. He further added that it was not a very practical idea to have sectoral FTA. The US Ambassador made these observations in an interactive meeting with the Forum of Financial Writers in New Delhi.

Mr. Mulford's remarks assume significance in the wake of the Indo-US Business Council's proposal for an FTA between the two countries in the service sectors. He said an agreement like North American Free Trade Agreement (NAFTA) with India would be hugely ambitious.

Mr. Mulford said the US was very supportive of India's goal to be a regional and global power and underlined steps it must take towards this end. "India has a very aggressive vision for itself that is dependent on producing continuing economic growth at a very significant level. To do that, world-class infrastructure is needed. Infrastructure has to be put on war footing," he suggested.

Although India's financial market is very sophisticated, there is a need to deepen it further. Mr. Mulford suggested that India should further liberalize financial markets, allow more private players and thus make it a vehicle for raising infrastructure finance.

The US Ambassador also said that India needed to transform rural economy, reform real estate and retail sector, put in place strong intellectual property protection regime apart from rationalizing subsidies.

He said large-scale foreign investment in retail would bring efficiencies in the system that would bring down prices of products thereby "empowering the consumer" and increasing the standard of living.

He said that India needed to remove barriers to FDI. On the domestic front, he hoped that introduction of value added tax (VAT) would help in integrating Indian market. It will also make India an attractive destination for FDI.

(*The Financial Express*, 9 February 2005)

## Phase II of Indo-Thai FTA Talks Hit ROO Bump

NEGOTIATION on the second phase of the Indo-Thai free trade agreement (FTA), which is to replace the early harvest scheme in September 2006, has hit a familiar road-block.

Disagreement over the ideal formula for determining Rules of Origin (ROO) of a product, which had delayed the implementation of the early harvest scheme, has revisited officials negotiating the second phase of the FTA.

An agreement on ROO is an important part of any trade agreement as it is used to determine whether a product originates from the participating country and qualifies for duty-free treatment.

Thailand, like before, is stressing the use of percentage value addition method for determining ROO. As per the method, any product, which has at least 40 per cent value addition from the participating countries and at most 60 per cent imported inputs, could be considered to be originating from the participating countries.

India feels that the percentage value addition method is not enough to ensure that an imported product is not re-exported by a country as it does not stress physical value addition. If input costs like wages and rent are high, then it could artificially increase the value of the final product even if very little physical value addition has taken place and it could be passed off as originating from the participating country.

To ensure adequate physical value addition, India suggested that in addition to the value added method, an additional criteria of change in tariff heading should be imposed.

Under this method, "substantial transformation" is said to occur if a good is classified to a different tariff heading than that of its component materials after production. Therefore, if the value of a product processed in a country goes up because of inputs like wages and rent, the tariff heading of the final product will not be much different from the imported product. It would thus not be considered to be originating from the country.

Thailand agreed to accept the use of both methodologies for determining ROO in the early harvest scheme after prolonged negotiations. However, in the on-going FTA negotiations, it has gone back to its earlier stand of having just the percentage value added method as the determinant of ROO.

Officials said that this was unacceptable to India as it used the change in tariff heading rule in all its trade agreements.

The FTA between India and Thailand is being implemented in two phases. The first phase, also known as the early harvest scheme, took off in September 2004 under which tariff reduction on 82 agreed items would take place in three years time.

(*The Financial Express*, 7 February 2005)

## Of Customs & Manners

WITH Prime Minister Manmohan Singh signalling big ticket customs reforms in the coming budget, attention is focused on the issue of import duties. The goal is to align tariffs with Asean levels — most rates are to be lowered to 0-5 per cent under the Asean Free Trade Agreement (AFTA) — to make Indian exports more competitive in the global market. Successive governments have adhered to the commitment of pruning customs tariffs — peak customs duty rate came down from 150 per cent in 1991 to 20 per cent in 2004. Peak rate refers to the highest general rate levied on several imported products.

Although average tariffs have seen a reduction, India's rates are still among the highest in the world. The need to accelerate tariff reforms is on top of the agenda at this juncture, considering that China has also made commitments to lower tariffs over the next three to five years. Before looking at the figures across various countries, please note that the ones mentioned here are based on the average of the actual rates. An ICRIER study on customs tariffs shows that India has the fifth highest (simple) average tariff of 29 per cent among 122 countries for which data is available after 1996. Four countries that have higher average tariffs than India are Cambodia, Bahamas, Burkina Faso and Tunisia. Average tariffs are lower in emerging market economies including Chile (6%), Turkey (10%), Venezuela (12.4%), Argentina (12.7%), Mexico (18%) and Egypt (19.9%). India is, of course, way behind developed countries where the average tariff is at around 3.8 per cent. The average tariffs of South Asian economies too are lower — Sri Lanka (8.2%), Pakistan (17.1%), Bangladesh (19.5%) and China (12.4%). "The fact that India has free trade agreements with Nepal and Sri Lanka means that it becomes profitable to import many items into these countries and re-export them into India. Any objective assessment would suggest that the Indian industry can compete with industries in these countries and there can be no rationale for a higher average rate than, say, Nepal," argues Dr. Arvind Virmani, Director, ICRIER.

Tariff reforms in China gathered momentum in 1996 when the government lowered the average tariff rate from 35 to 23 per cent. Close to 5,000 items were covered. The rate was slashed to 17 per cent in 1997 and further to 15.3 per cent in 2001. Having entered the WTO, China has promised to drop rates below the average rate of developing countries. The average import duty on industrial products is around 9.4 per cent. China also imposes VAT on imports. Some economists reckon that a reduction in customs tariff coupled with the removal of small-scale sector reservation and flexible labour laws would enable India to compete with China.

In India, most goods attract a peak import duty rate of 20 per cent. Cars attract a higher import tariff of 60 per cent, while the customs duty on specified agricultural products ranges between 65 to 100 per cent. There are a host of products in the exempt category as well. India is also bound by international agreements such as the ITA where it has committed to reduce tariffs on telecom and IT products from 1 April 2005. A major source of revenue is from crude and petro-products — crude duties are at 10 per cent, while duties on petro-products range between 10 and 20 per cent. The effective rate of protection to domestic refineries is around 60 to 70 per cent, again far higher than countries like South Korea, Indonesia and Malaysia.

If the peak import duty rate is lowered by 5 per cent every year, India will be able to align its tariffs with Asean by 2008-09. The Asean FTA would, in fact, lower the rates to the 0 to 5 per cent range even for highly sensitive agriculture products.

(*The Economic Times*, 2 February 2005)

## Rules of Origin Issue Sorted Out for Asia Pacific Trade Pact

THE issue of Rules of Origin (ROO) in the preferential trade agreement (PTA) between six countries including India, China, Sri Lanka and Korea has finally been sorted out. This paves the way for further widening of the basket of items identified for tariff cuts and also deepening the cuts.

The PTA is part of the UN Economic and Social Commission for Asia and the Pacific's (UNESCAP) Bangkok Agreement which will soon be renamed the Asia Pacific Trade Agreement.

UNESCAP Executive Secretary Kim Hak-Su said that it has been decided to base the ROO on 45 per cent value-added basis. Korea has pushed for 50 per cent and Bangladesh for 30 per cent.

The main principle behind the concept of ROO is that the country of origin should be the last country where a substantial transformation is made. The three criteria of substantial transformation are: change in tariff classification (final product must have a different tariff classification from raw materials) rule, local content (which should be above a threshold) rule and process rule.

India and China have already offered each other fresh tariff concessions under the initiative. According to the Commerce Ministry, concessions offered to China under the Bangkok Agreement will cover around 2.2 per cent of India's imports in value terms. In return, India will be eligible for concessions on 722 items covering 25-30 per cent of the country's total exports.

The first session of the ministerial will be in Beijing in April or May. Membership of Cambodia, Mongolia, Kazakhstan and Pakistan will also be considered. "Many countries are willing to be part of the grouping now that both India and China are in it," Mr. Hak-Sui said. He said the basket of items may widen from 1,600 to 3,000.

The ROO issue had held up many other agreements. India and Thailand took a long time in thrashing out an agreement on ROO. With Singapore, the issue is still pending.

(*The Financial Express*, 19 January 2005)

## Watch Out on RTAs: World Bank

WORLD BANK wants developing world to be careful while signing regional trade agreements and free trade agreements as the cost of such bilateral pacts will far outweigh the benefits that accrue from such pacts. This is important for a country like India which cannot "naturally fit" into any regional trading arrangement, said Uri Dadush, Director, Economic Policy and Development Prospects Group, World Bank.

Mr. Dadush told that RTAs would only help if they were designed carefully. As far as India is concerned it would be in the interest of the country to ensure success of multilateral trade pact, especially the Doha Round.

India, he added, is not a small economy and opening of global market is vital for country's export. Preference to one country "means discrimination against others which may not be in the interest of large economies like India and China."

According to the World Bank's Global Economic Prospects 2005, there has been proliferation of RTAs which is fundamentally altering the world trade landscape. The number of agreements surpasses 200 and it has risen six-fold in just two decades.

Gopal K. Pillai, Additional Secretary, Commerce Ministry, said, "RTA was a not a new found wisdom." Mr. Dadush said, "India, which is benefiting from liberalization, growth in exports and higher forex reserve position, is managing the oil shocks well." The improvement in productivity and competitiveness of the manufacturing sector has helped India absorb the oil price shocks, he added.

(*The Financial Express*, 9 December 2004)

## Tough Choices

### Debate Rages between FTAs and Multilateralism

COMMERCE & Industry Minister Kamal Nath's appreciation for regional FTAs is not surprising. It is in part a reflection of India's growing sense of frustration over the contentious nature of multilateral talks — especially over issues like agricultural subsidies — in concluding the Doha Round of WTO negotiations. However, it would be premature to infer from this that he genuinely prefers FTAs over multilateral trade agreements. Far from it. While addressing a plenary session on international trade at the India Economic Summit, he was emphatic that India did attach prime importance to the multilateral trading system. But he also saw a role for FTAs to "complement and supplement the multilateral system."

Reading between the lines would suggest that he perceives FTAs as a second best option given the current progress in WTO negotiations. There are 200 RTAs currently in operation — more than the number of countries in the world! Half the world's trade now takes place within the umbrella of some RTA or the other. For good measure, he added that these were not FTAs properly speaking but some form of economic cooperation agreements and constituted the building blocks of the world trading order in the next decade. The only categorical statement that Shri Kamal Nath ventured to make was that multilateralism cannot be the driver of south-south trade!

Not that there is much south-south trade anyway, but the Commerce and Industry Minister surely is not unaware of India's experience with FTAs so far. We may have a successful one with Sri Lanka but ongoing efforts to integrate with Asean through FTAs and FTA-plus agreements with members like Thailand and Singapore are set to drag on interminably.

Such delays stem largely from fears of sections of India Inc that such agreements will be misused by foreigners as a staging ground for cheaper exports to India. This leads to complicated rules of origin that are difficult to enforce. A related issue is value addition. Measuring value addition from the point of view of customs enforcement presents a lot of challenges in its own right. Don't all of these constitute serious grounds for going all out to strengthen the fair and rule-based multilateral trading order? Shri Kamal Nath surely would agree. But given the current progress on multilateral talks, it is only to be expected that he would want to keep his options open.

(*The Financial Express*, 8 December 2004)

## India, WTO Lock Horns over FTAs

### Bilateral Pacts to Drive Trade: Kamal Nath

INDIA made it clear that it would aggressively push for more regional trade agreements, though it attached importance to the multilateral trading system.

Addressing the plenary session on international trade, Commerce and Industry Minister Kamal Nath said, "Economic cooperation agreements will be building blocks and drivers of global trade. The multilateral system cannot drive south-south trades."

According to him, 60-70 per cent of world trade will come through RTAs in the next 10 years. "There are over 200 RTAs in operation, and it is estimated that over half of global trade now takes place within the umbrella of some RTA or the other," he said.

Indicating that agriculture will remain a contentious issue in the course of WTO negotiations, Shri Kamal Nath pointed out that the developed world extended $1 billion as subsidies to farmers. Indian farmers cannot compete with Western Governments, he said.

The Minister also said that the Government would soon come out with a new technology transfer policy in a bid to attract state-of-the-art technology. India welcomed FDI both as a source of capital as well as a vehicle for technology transfer, he said, adding, "Technology alone can enable developing countries to do the catching up."

The Minister also said that India will resist all kinds of pressures for any new form of protectionism in the world textile trade following the phase-out of quotas under the Multifibre Arrangement and expiry of the Agreement on Textiles and Clothing.

**The Phase Out would be Effective from 1 January 2005**

"The expiry of Agreement on Textiles and Clothing does not ensure that protectionism will disappear from the stipulated date. While developing countries poise themselves to fully exploit the opportunities that will open up before them, there are forces as well to negate this and we shall not allow it," Shri Kamal Nath said.

The Minister said that there is a growing need to consolidate the gains while being vigilant on the emerging trade policy conditions to be able to collectively resist pressure for any new form of protectionism in the sector.

(*The Financial Express*, 7 December 2004)

## Don't Go Whole Hog on FTAs: Supachai

WTO Director-General Supachai Panitchpakdi cautioned India against going the whole hog with RTAs and FTAs. He said WTO would institute a mechanism to ascertain whether FTAs and RTAs contributed to the multilateral process of integrating and easing world trade.

Speaking at the India Economic Summit, Mr Supachai said that India would benefit more by using its energy for early conclusion of the Doha Round in WTO, rather than entering into FTAs and RTAs. Making his choice clear, the WTO Director-General said, "Multilateralism should retain its primacy over bilateral trade agreements."

He added, "These agreements (FTAs and RTAs) have brought down tariffs by 10 per cent or so, whereas the multilateral process under the WTO has reduced tariffs by around 25 per cent."

The Rules of Orgin - meant for adversarial trade deflection - and complexity of tariff lines that the FTAs would bring in are "both confusing and costly," Mr. Supachai said, adding that member-countries of the WTO have rights as well as obligations to fulfill in order to strengthen the multilateral trading system.

Developing countries must realize that with their new authority as "emerging markets", they cannot let the organization (of world trade) move forward in multiple tracks. At the same time, he conceded that special treatments are needed to safeguard the interest of poor nations, as many countries have not benefitted from multilateral trade as they should have. "The WTO must look global," he said.

Mr. Supachai advocated a five-pronged approach for developing countries. Through their powerful grouping G-20, developing countries are increasingly asserting their rightful place in multilateral negotiations, he said, referring to the agriculture package in the August 2004 framework agreement for further negotiations on Doha Work Programme. Mr. Supachai said that there were no longer any irreconcilable conflicts between the north and the south.

(*The Financial Express*, 7 December 2004)

## WTO Official Not in Favour of Regional Trade Pacts

A SENIOR WTO official has cautioned India against joining the bandwagon for RTAs and FTAs and said the WTO would institute a mechanism to monitor whether the agreements contributed to multilateral process and reduction in protectionism.

"I share concerns on India going in for FTAs and RTAs. They are not as effective as multilateral agreements," said the WTO Director-General, Supachai Panitchpakdi, at the Indian Economic Summit organized by the World Economic Forum and Confederation of Indian Industry in New Delhi.

Asserting that multilateralism must get primacy over RTAs and FTAs, Mr. Supachai said this should be the correct approach as studies have shown that these agreements brought down tariffs only by about 10 per cent in comparison to 25 per cent by multilateral agreements.

Pointing out that multiple rules of origin and tariff lines can be both confusing and costly, Mr. Supachai said it was in India's interest to spend the same energy to promote multilateralism, since an early conclusion of the Doha Round would result in larger benefits than RTAs and FTAs.

Lamenting the lack of mechanism to monitor the contribution of these agreements to multilateralism, he said some mechanism was being worked out in the form of peer-review to see if they were building blocks for multilateralism.

(*The Hindu Business Line*, 7 December 2004)

## Cigarette Cos Say Imports Injurious to Their Health

### Exempt Smokes from FTA Purview: Tobacco Industry

HAVING blocked the entry of foreign cigarette majors into the country, domestic cigarette companies have now trained their guns on imports.

The domestic industry under the aegis of the Tobacco Institute of India has asked the Government to ensure that cigarettes are exempted from the purview of all the FTAs currently being negotiated by the Government. The members of the Tobacco Institute include market leader ITC and Godfrey Philips.

In a letter written to the Commerce and Industry Minister Kamal Nath, the Tobacco Institute has argued that liberalization of trade in cigarettes will be contrary to the Government's tobacco control policies, given the fact that India has strict laws for regulating cigarette production and controlling cigarette consumption.

The domestic industry has pointed out that as cigarettes are highly taxed products, a lack of harmonization in import and domestic duties between India and its trading partners would give a fillip to contraband trade. It has also warned that liberalization of cigarette trade will adversely affect the livelihood of tobacco farmers and farm workers as imported cigarettes do not use Indian tobacco.

"We believe that opening up of the Indian market to foreign companies will have serious ramifications. International cigarette MNCs have been making concerted efforts to penetrate potential markets in developing countries. These companies have been riding on the tenets of trade liberalization to pry open closed markets,'' states the Tobacco Institute in its letter. Import of cigarettes has become a major bone of contention for an influential section of the local industry. At present, cigarettes can be freely imported into the country under OGL. Domestic cigarette companies want the Government to move cigarette and tobacco products from the OGL list to the "Restricted List'' of imports, and subject them to licensing provisions. It is argued that when domestic cigarette manufacturers are not allowed to expand their production capacities and no new FDI is permitted in this sector, it makes no sense to place cigarettes under the OGL list.

(*The Economic Times*, 4 December 2004)

## No Free Rides on Free Trade

### Adjustment Needs Institutional Strength

THE wide-ranging nature of the pact that India has signed with Asean points to the many compulsions New Delhi faces when it reaches out to the world. In the less-than-perfect competition of world markets, securing regional markets through free trade agreements is an urgent necessity. The need for economic cooperation also extends beyond a free market. The WTO in particular, with its one-country-one-vote system, makes alliances imperative for effective negotiations. The changing world order has its political compulsions as well. Some of them are institutional — the structure of the UN is many decades old and proving to be not so beneficial. And in a world where terrorism is globalized, it is futile to try and deal with the menace unilaterally. The Asean-India Partnership for Peace, Progress and Shared Prosperity that Dr. Manmohan Singh signed at Vientiane tries to reach out in a variety of these directions. There is a commitment to create a free trade area with the five richer Asean members by 2011 and with the other five by 2016. There are also commitments to work together in the WTO, to remodel the UN, and to fight terrorism.

As a statement of intent, this partnership deal can hardly be faulted. But it implies harsh decisions. A free trade area will benefit Indian industries that are competitive and hurt those that are not. In theory, the economy should shift away from sectors of comparative disadvantage to those of advantage. But if this transition is not to lead to widespread disruption, we will need to build institutions that will ease the pain of such change.

And India's record in creating safety nets and retraining workers has been poor. Again, within the WTO there could be conflicts of interests on some issues between India and some Asean members. Similarly, while it is easy to agree that the UN needs reform, identifying the nature of that reform is more divisive. Overcoming these difficulties may not be easy, but the need to keep in touch with a rapidly changing world is motivation enough to rise to the challenge.

(*The Economic Times*, 2 December 2004)

## RBI Opposes Financial Services Liberalization under S'pore Pact

THE proposed Comprehensive Economic Cooperation Agreement (CECA) with Singapore is running into rough weather with the Reserve Bank of India expressing reservations over the move to liberalize market access in financial services. Providing liberal market access in financial services to a country with open economy would result in de facto capital convertibility, the apex bank has said during consultations on the proposed CECA which also includes an FTAs. The RBI's view is that the Government should not go beyond commitments made under GATS (General Agreement on Trade in Services) to all WTO members. The development comes at a time when revised offers are being submitted for liberalization of the services sector, along with agriculture, under the next phase of WTO negotiations.

The apex bank has also emphasized that only entities owned by Singapore nationals should be allowed to enjoy concessions allowed under the CECA. The debate in this case relates to the definition of "juridical" persons – individuals and entities allowed under Singapore law to enjoy the benefits of citizens of the country… "we should not agree to the relaxation of 'juridical' persons in financial services, because of the liberal entry policy of foreign financial institutions in Singapore," according to a communication from the RBI to the Commerce Department. The apprehensions of the central bank also take into consideration that India is now negotiating a CECA with Mauritius which has become the routing point for a significant portion of the FDI flowing into the country. Similar agreements are also being negotiated with Asean and Sri Lanka. Commerce & Industry Minister Kamal Nath has proposed similar pacts with Russia and Pakistan, too.

Discussions are now on between the Commerce Department, the Finance Ministry, RBI and the Ministry of External Affairs over the final draft of the CECA with Singapore which in many ways is expected to be a trend-setter. Apart from exchange of duty concessions, the pact looks at wide-ranging cooperation in the services sector. Singapore is keen to invest in India in a big way and the move is expected to create a win-win situation for both countries.

"We are of the firm view that no bilateral commitments may be made under the CECA in the financial services sector beyond what is already agreed under GATS. This is also premised on the fact that as long as we have capital controls, any bilateral commitments for access in financial services with one country which has open economy would automatically make us convertible on capital account, de facto, through that route," the RBI has argued.

The Commerce Department is now circulating a Cabinet Note on the CECA with Singapore and comments from different departments are expected to be considered before the pact is discussed by the Union Cabinet. Officials of the Commerce Department feel that the pact can be finalized before the end of December.

The RBI feels that the "negative list" approach by developed countries in financial services negotiations should not be followed in the case of CECA with Singapore. The "negative list" approach works on the basis of offering market access in all segments except those specifically listed.

(*The Economic Times*, 2 December 2004)

## Finmin Rocks Singapore FTA Boat

IN a move that could land the proposed Comprehensive Economic Cooperation Agreement (CECA) and FTA with Singapore in controversy, the Finance Ministry has raised a series of objections to elimination of tariffs on certain items and highlighted concerns over customs cooperation between the two countries.

Interestingly, the objections of the Finance Ministry come at a time when the Commerce Department is hoping to conclude the pacts with Singapore next month. India Inc had raised its objections earlier and the posers of the Finance Ministry indicate that unanimity within the government eludes the much-discussed FTA and the CECA despite 10 rounds of bilateral consultations.

The Finance Ministry expressed reservations on elimination of tariffs on a number of items including certain types of diamonds, storage media (like CDs), styrene, p-xylene, certain types of sewing machines, shipping vessels, transmission & reception apparatus used for radio telephony and broadcasting or telecasting; and some types of equipment used for physical/chemical analysis.

It has further highlighted concerns over "obstacles" faced in sharing information related to undervaluation of imports from Singapore. It seems the Finance Ministry has come across several instances where goods destined for India originate from other places like Dubai or Bangkok but the invoice is raised from Singapore. The Ministry feels that such malpractice would help traders in third countries to exploit the India-Singapore FTA.

"It is understood that the negotiations in respect of CECA with Singapore are yet to be concluded even though it may be at an advanced stage. The reluctance shown by Singapore to accede to the request of India on customs cooperation could do harm to the revenue interests of India and also affect our domestic industries. The Department of Revenue, therefore, feels that any FTA with Singapore without meeting our requests as stated above, would be unacceptable," says Finance Ministry.

(*The Economic Times*, 29 November 2004)

## FTA with Thailand to Take Time

A full-fledged FTA with Thailand may take some time to work out due to complexities in tariff structures.

"The talks are progressing well. Given the complexities of the tariff structure in the two countries, it may take some time before a full-fledged FTA is operational between India and Thailand," expressed Commerce Secretary S.N. Menon.

He said the "early harvest scheme" was already in force from 1 September this year. Negotiations are on to bring down tariff on various items including agricultural products. He added that FTAs with Asean countries were in various stages of negotiation.

With Singapore, Shri Menon said, negotiations are already in an advanced stage, and may be concluded within a year. "The focus for India would be investment in infrastructure." Right now, Sri Lanka is the lone country with which India has an FTA.

India's sustained efforts to engage with Asean in the last one decade have resulted in Asean-India trade touching $13 billion last year, an increase of about 450 per cent over the 1993-94 trade figures. India's exports to Asean are $4.85 billion, while imports account for about $8.15 billion.

Still, there remains significant potential to further expand these ties, official sources said. At the second India-Asean business meet held in Delhi and Mumbai, the Prime Minister had set a target of $15 billion by 2005 and $30 billion by 2007 for India-Asean trade. India mainly exports oil meals, gems & jewellery, meat & meat preparations, cotton yarn, fabric, machinery, rice, pharmaceuticals and chemicals. It imports artificial resin, plastic material, natural rubber, wood & wood products, organic chemicals, edible oils and fertilizer. Asean countries, particularly Malaysia, Singapore and Thailand are also increasingly investing in India in crucial sectors such as telecom, fuel, hotel & tourism services, heavy industry, chemicals, fertilizer, textiles, paper & pulp and food processing.

(*The Financial Express*, 29 November 2004)

## Time to Strengthen Regional Trade Pacts, Says Kamal Nath

THE Commerce and Industry Minister Kamal Nath said at the Economic Editors' Conference in New Delhi, that bilateral trade agreements will serve as engines for international trade. "India would prefer to term such cooperation as economic partnership rather than free trade agreements (FTAs)," he said. The country is already in the process of finalizing Comprehensive Economic Cooperation Agreement (CECA) with Singapore and is interested in greater economic cooperation through SAFTA (South Asia Free Trade Agreement), South Asian Association for Regional Cooperation (SAARC) and Association of South-East Asian Nations (ASEAN).

Globally, at least 50-60 per cent of trade is already outside the multilateral system. Regional and bilateral trade is on the rise. India should also go by this trend.

Shri Nath said, "the emphasis today is on employment generating exports as opposed to dollar generating exports, as in the past. India needs to enhance its capability for export of value-added products." Indian merchandise exports are surging and are likely to touch $75 billion. If we subtract oil imports our exports exceed imports today, he added. "The Government will also conclude all trade related issues with Bangladesh within three months," he said.

Addressing a question on the post-MFA scenario, he said the European Union was excluding India from the Generalized System of Preferences (GSP) as it qualified high and did not need these preferences.

The Government, however, has managed to retain India as part of the system. "While textile exports to the US are likely to go up from 4 per cent to 15 per cent with the dismantling of MFA, Indian textile industry must consolidate," he added.

(*The Financial Express*, 18 November 2004)

## For Fair Trade Agreements

### Enforce Rules of Origin

THE Indo-Thai FTA is yet to take off, save on 82 items, because of technical hitches over Rules of Origin (ROO). It is imperative that ROO be well designed and that Cusotms have both the capacity and the integrity needed to enforce ROO.

That is the way to kickstart trade while ensuring that imports into Thailand from cheaper origins will freely access India's market simply because Thai tariff rates are far lower than India's. In fact, disagreements on ROO are precisely what have held up the other FTAs under negotiation (with Singapore and Asean). Thailand's economy, like most other East-Asian ones, is relatively more developed and diversified. So the FTA should raise India's internal level of competition too, leading to more "trade creation" than "trade diversion". Finally, studies already show that 25 per cent of India's trade is with East Asia. Not only will this FTA raise that, it should also acclimatize India to greater trade openness, thus easing the prospect of its entry into the global commercial arena (where peak tariff levels for manufactures rule between 5 and 7 per cent in developing economies, and are lower still in the OECD).

Yet, free-trading with a member of the Asean will also entail some serious homework to ensure that free trade also implies "fair" trade. One principal action point must be the immediate computerization of customs procedures, including "soft-coding" (including bar-coding). That will help speed, accuracy and expose attempts at ROO infringements. A second important step would be to immediately initiate a process of harmonization of commodity certification procedures with Thailand. Not only will that help us in the current context of this FTA, it will also be an asset in the wider Asean (and, then, the international) context.

Thirdly, the Government must train customs personnel to achieve proficiency levels within the new, computerized, environment.

Finally, it must use this first step of the Indo-Thai FTA to initiate a process of promoting greater competitiveness by harmonizing factor-market regulations and the conditionalities of investment for all-comers.

(*The Economic Times*, *17* November 2004)

## Indo-Thai Pact a "Win-Win" Situation

THE Consul-General of Thailand in Kolkata, Mr. Wanna Perngmark, has urged Indian manufacturers to shake off their fears over the Indo-Thai FTA.

Addressing the members of the Bharat Chamber of Commerce here in Kolkata he said a section of manufacturers in India was apprehensive that Thai products might flood Indian markets, affecting the domestic industry. But Mr. Perngmark said the FTA was a "win-win" situation for both the countries to enhance and strengthen their respective economies through mutual trust and codependence.

He said trade and investment between India and Thailand would witness a steady increase in the near future, taking advantage of the Indo-Thai FTA, effective from September 2004 on 82 items included in "the Early Harvest Scheme". Both the countries are allowed to trade in these specified items at a uniform duty rate of 50 per cent.

Import duties will be further reduced by 25 per cent from September 2005 to August 2006. And all the items will be totally free of duty from 2006.

The Indo-Thai FTA seeks to liberalize the maximum rate for tariff reduction in trade and services, which was now under negotiation. The ultimate goal is to cover all products and services under the FTA-fold.

He said the Early Harvest Scheme held high significance, as both sides will have greater access to each other's markets.

Under the listed items in EHS, mangoes, apples, durians, rambutan, seafood products, gems & jewellery, automotive assembly & parts and electronic components are said to have high potential.

The Consul-General felt that Kolkata may gain the most, considering its geographical proximity to South and South-East Asian countries.

(*The Hindu Business Line*, 11 November 2004)

## Singapore CECA Hits a Roadblock

THE proposed Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore has hit a bump. The Singapore government has made out a strong case for product-specific relaxation of the Rules of Origin (ROO) criteria for over 480 items of trade in sectors including chemicals, petrochemicals, food processing, electronics and automobiles.

It has rejected India's proposal for simultaneous application of all the three ROO criteria for these items, saying they are "sensitive" as far as Singapore's economy is concerned.

With the Indian government firmly resisting the move, CECA negotiations are now deadlocked and the December 2004 deadline for ratifying the agreement may not be met.

According to Government sources, Singapore's insistence on waiver from the "generic" ROO criteria for a number of products could result in gross violation of the principle of the Rules of Origin, i.e., avoidance of trade deflection.

The three criteria of Rules of Origin are: fixed level of minimum value addition in the relevant country, change of tariff heading (CTH) at the 4-6 digit level as per the WTO's harmonized system (HS) code (defining the product) and specifications of the kind of value addition. These criteria are inter-related. For example, a CTH could, in practice, require an obligatory degree of value addition. Sources said that Singapore, which has already agreed to a 40 per cent domestic value addition and a CTH at 4-digit level for the generic ROO criteria for the FTA with India, has pitched for a special dispensation for the 480-odd items. During bilateral negotiations with New Delhi, Singapore has said that it would comply with any of the three ROO criteria for these items, instead of complying with all the three criteria.

India, on the other hand, is learnt to have stuck to the three criteria formula, which the country has generally maintained for all free/preferential trade pacts and CECAs being negotiated. New Delhi thinks that it is crucial to have full compliance with ROO criteria because of Singapore's large exposure to transit trade.

"The value addition criterion alone may not serve the purpose as it factors in labour cost and profits as well. Nominal manufacturing activities like cutting, repackaging, mixing, etc., cannot be reckoned as sufficient value addition, even if the percentage norm is met," said a Commerce Department Official.

CECA, which comprises investment as well as trade in goods and services, is designed to include an FTA. India is keen to extract a liberal regime on services from Singapore under the proposed FTA. It wants Singapore to liberalize movement of natural persons from India to that country in a manner enabling them to find professional employment in financial services, hospitality, healthcare, and educational services.

Even as India has generally adopted the ROO criteria in the FTA with Sri Lanka as its domestic position in this regard, a committee headed by P.V.R. Ramanan, former member of the Central Board of Excise & Customs (CBEC) is having a fresh look at these criteria.

(*The Economic Times*, 11 November 2004)

## India's Free Trade Agreement

### Impact on Domestic Industry

THE Associated Chambers of Commerce and Industry of India (ASSOCHAM) requested the Government to take a cautious approach while finalizing the Free Trade Agreements (FTAs) as a slight lapse on its part in drafting FTAs can result into their possible misuse and cause tremendous upheaval and shock for the domestic industry.

Welcoming the participants at the ASSOCHAM Seminar on "Free Trade Agreements: Impact on Domestic Industry," held on 16 October 2004, ASSOCHAM President Mahendra K. Sanghi said that Indian authorities need to be constantly conscious in drafting the FTAs in a manner so that their possible misuse with India is prevented. The ASSOCHAM President also felt that the need of the hour is that the Ministry of Commerce and Industry should keep reviewing the rules of origin and other instruments and react swiftly with empirical evidence to prevent the possible misuse of the FTAs in the interest of the domestic industry. "In order to facilitate this, the procedures should be streamlined in a fashion that preventive action takes place within days and not months after it is observed that the FTAs are being misused", observed Shri Sanghi.

The Commerce & Industry Minister Kamal Nath inaugurated the Seminar. In a bid to dispel the apprehensions of Indian industry about lacunae in existing FTAs, the Commerce and Industry Ministry announced setting up of "FTAs Cell" to address country-specific concerns and issues within a stipulated time-frame. "Cell will carefully examine the complaints received and advise the Government to finalize its future model for economic cooperation and trade agreements". Responding to ASSOCHAM President Sanghi's suggestion on future economic trade agreements model, the Minister said that the Government will frame its future economic trade agreements in a manner so that they become engine of export growth and hasten the inflow of foreign direct investments into India. The Minister also told the Indian industry that the Indian businessmen should realize that FTAs cannot be ideal in all respects as these have to take into consideration the give and take factors under divergent circumstances. The Minister further hoped that the WTO process would reach its final culmination within the stipulated time-frame and provide for economic and trade agreements to flourish.

The Chamber has further suggested that four crucial issues that need careful handling while entering into FTAs include: the rules of origin, the safeguard measures, products that India aim at to exports and also the products India is perpetually deficit in. The discussion paper released during the seminar also pointed out that given the practices internationally and our domestic imperatives, India needs to consider a combination of two or three criteria dependent on the product lines. Specified process test is also deemed necessary for certain products as on several occasions, changes in tariff classification are combined with local value content stipulations. The local value content of the goods is stipulated under certain conditions with the help of two methods, namely transaction value method and net cost method. Most countries have formulated FTAs with a value addition norm of 40 per cent, which is however fixed at 50 per cent for few agreements as in ASEAN and NAFTA.

Discussions during the seminar also highlighted the need for formulating the agreements depending on the level of development of FTA partner country; likewise rules of origin can also be thought of, if necessary, costing details should be made available by FTAs partner in case of doubt for inspection if the producer is an integrated producer, producing upstream products in-house, actual cost data should be available for verification and records be maintained in conformity with generally accepted accounting practices of the countries concerned. Since India is emerging as a global power in South Asia, the trend of signing FTAs with other countries may continue and gain momentum. Therefore, the framework for FTAs need to be designed keeping in mind the strengths and weaknesses of Indian economy in general and trade and industry in particular, participants felt.

The recommendations of the seminar were that in view of the lack of a common market in India, the essentially advantageous policy initiatives have evoked decidedly mixed response ranging between elation and despair from domestic industry, for this will have a long-term impact on domestic economy, which implies that the general policy direction must be finalized after careful deliberation and in accordance with commensurate domestic policy reforms.

In particular, given the present-day rigidities in the domestic policies, India must incorporate special provisions for certain sectors in its free trade agreements with other countries as a steady decline in tariffs in these sectors is exposing domestic player to unfair competition arising out of the distorted and incomplete Value Added Tax (VAT) structure in the country. Indian exporters are still facing problems due to inadequate internal reforms. Industry therefore believes that it is fair to demand that till such time as the VAT regime is not fully implemented in the country, the Government's zeal for signing trade agreements with partners with more open economies be restricted to the limits of economic and political necessity. Existing local levies such as sales tax and octroi are not fully counter-vailable when imports arrive into India. Therefore, India should be extremely careful while signing any tariff concessions through these FTAs until the VAT systerm is complete.

It is true that these Agreements also help in increasing the formation of joint ventures and investments between countries, urging the business communities of participating countries to take advantage of the enabling environment being provided through this Agreement for intensified economic (trade and investment) activities. However, the economic costs and benefits of each of the new PTAs depend crucially on the details of the product lists, phasing, rules of origin, etc. the economic structure and resource endowments, juxtaposed with the complementarity of the policy environment prevailing in the domestic economies of the participating countries. For unless commensurate domestic policies and safeguard mechanisms are put in place, probability of trade-diversion and third-country routing will always be more than trade-creation potential of the agreement, even in sectors where India has a natural comparative and competitive advantage.

(*ASSOCHAM Bulletin*, November 2004)

## EU-Mexico Free Trade Agreement

THE Free Trade Agreement (FTA) between Europe and Mexico officially entered into force on 1 July 2000. Welcoming this event Commissioner Lamy said, "This is a historic moment. It marks the beginning of a new era in Europe's relations with Mexico. We are confident that economic operators in Europe and Mexico will be quick to breathe life into this agreement and to improve our bilateral trading relationship significantly".

Following the signature of the EU-Mexico FTA at the European Council in Lisbon in March (Joint Council of the Interim Agreement on Trade and Trade-related Matters), tariff dismantling between Europe and Mexico allowing for preferential access for European and Mexican exporters into their respective markets began on 1 July 2000. The Agreement also provides for the entry into force of the chapters on public procurement, competition and dispute settlement.

### FTA in Goods

The FTA will liberalize over 96 per cent of EU-Mexico trade by 2007 at the latest. The bulk of tariff dismantling (industrial products) will be completed by 1 January 2003: as of now, 82 per cent of Mexico's industrial exports can enter the EU duty free whilst 50 per cent of European exports no longer pay any duties. These include exports currently paying tariffs of up to 20 per cent such as engines, telecommunication equipment, cellular phones, public phones, a number of pharma chemical products, TV and radio parts and medical equipment. Specific arrangements for cars include a tariff cut from 20 per cent to 3.3 per cent with the tariff disappearing in 2003.

By 2003, when industrial products will be fully liberalized in NAFTA, all Mexican exports will enter the EU duty free and EU exports will only have to contend with a maximum tariff of 5 per cent. For example, EU exporters of shoes and textiles will have to contend with tariffs slashed from 35 to 5 per cent.

For agricultural products, preferential access will be possible for important EU exports such as beer, certain vegetables, fruits and fruit juices, liquors and spirits (vodka, cognac, certain whisky, gin), cut flowers, tomatoes, pectic substances and tobacco. Tariffs in wines that stood at 20 per cent are now reduced to 15 per cent. Quality wines (above US$5 in value) will enter Mexico duty free as of going down to zero in 2003. Mexico will gradually eliminate tariffs on olive oil. Mexican agriculture will benefit with preferential access for exports to the EU of coffee, avocado, cut flowers, fruits & juices, and honey.

EU operators will have guaranteed access to Mexico's lucrative markets on the best terms substantially similar to NAFTA. Access to markets at federal government level includes most government enterprises and key sectors such as petrochemical (Pemex), electricity (CFE), dredging, construction and IT. The agreement contains clear rules guaranteeing transparency. Substantive disciplines on competition will now ensure a level playing field for economic operators. An effective bilateral dispute settlement mechanism compatible with the WTO will now also enter into force.

(*www.europe.eu.int)*

## Singapore's FTA: Expanding Markets & Connecting Partners

SINGAPORE is a highly trade-dependent economy, with the highest trade to GDP ratio in the world. Not only are we heavily reliant on imports as our only source of food, energy and industrial raw materials, our small domestic market also means that our industries must rely on overseas export markets to absorb their outputs. Furthermore, trade activities have historically been and continue to be an important source of economic wealth for the country.

We are therefore free traders, implementing practically no barriers to the free flow of goods in and out of Singapore, and a vocal champion of global free trade. The primary objective of our trade policy is to guard our trading interests by ensuring a free and open international trading environment.

This is why Singapore places the highest priority on the multilateral trading system steered by the WTO. The WTO provides the stable framework for developing sound multilateral rules that ensure goods and services can flow freely with minimum impediment.

But while we are unequivocal supporters of the WTO, we also strongly believe that trade efforts undertaken in regional fora such as APEC, ASEM and ASEAN, as well as under bilateral Free Trade Agreements (FTAs) can accelerate the momentum of trade liberalization and strengthen the multilateral trading system. As legally binding arrangements between willing member countries, FTAs enhance trade and investment flows by providing lower tariffs for exports of goods, hassle-free customs procedures, improved market access for various commercial and professional services, easier entry for our businessmen into other countries, better terms for investment in foreign countries, etc. It sets a framework for our businesses to grow and expand globally, which in turn will generate more employment opportunities for Singaporeans.

It is with the business community in Singapore and Singaporeans in mind that the Government of Singapore is advancing our trade interests through the multilateral and regional trade fora and through FTA linkages with our key overseas markets. The Ministry of Trade & Industry is therefore keen to hear the views of the business community and the people of Singapore on how our efforts could further the interests of the private and public sectors of Singapore. In particular, we welcome views, comments and discussions on our ongoing FTA initiatives.

Singapore's network of FTAs goes beyond trade and business expansion. They are designed to support its business community in moving up the value-added ladder and knowledge chain.

- *Developing an integrated manfacturing centre in the region*: Rules of Origin (ROO) in our FTAs are designed to recognize the integrated nature of modern manufacturing in Singapore, where production is outsourced to low cost centres, but initial R&D and the final stages of high-end processing are conducted domestically.
- *Nurturing a knowledge-based economy*: Enhancement of intellectual property protection will raise Singapore's IP standards to the level of sophistication found in developed economies. Greater cooperation in the area of science & technology will boost research & development in high value industries.
- *Driving a services hub*: Liberalization of service sectors both at home and in our FTA partners will spur the growth of services and other creative industries.

(*www.mti.gov.sg*)

## US-Central America Free Trade Agreement

THE US is committed to proceeding with trade initiatives globally, regionally and with individual nations. These free trade arrangements will strengthen its economy at home - benefiting American farmers, businesses, workers, and consumers. At the same time, these agreements will promote economic development and democratic governance among our trading partners.

By moving on multiple fronts simultaneously, this strategy will enhance America's world leadership on trade by strengthening the economic ties, promoting fresh approaches to international economic problems, and leveraging American influence to improve the quality of life at home and abroad.

The US Administration has already made key progress towards expanding trade with Central America. During 2001, the Bush Administration discussed with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua their interest in a free trade agreement with the US.

These countries met in Managua in September 2001 to explore ways to forge closer economic relations and advance free trade. On the basis of the interchanges, the five Central American countries have expressed interest in pursuing a free trade agreement with the US as a group, and have indicated their readiness for negotiations.

The US-Central America FTA would promote US exports. The US exported $8.8 billion to Central America in 2000—more than we sold to Russia, Indonesia, and India combined. Mexico and Canada—NAFTA partners – have already recognized the potential of the Central American market and the need to support Central American reforms by pursuing their own free trade agreements with countries in the region. Chile has done the same.

The US should not be left behind in North America's economic engagement with Central America. A US-Central America FTA would ensure that American workers and companies are not disadvantaged, build on the $4 billion of US investment in the region, and avoid erosion of US competitiveness.

US duties for the region are already low, as these countries are beneficiaries of the Caribbean Basin Initiative. US imports from Central America totalled $11.8 billion in 2000. During the past decade, Central American countries have established democratic systems of government and begun implementing economic reforms to promote privatization, competition, and open markets. The US has supported the development of democracy, enhanced economic growth, and security for human rights through the Caribbean Basin Initiative, including the Caribbean Basin Trade Partnership Act.

The proposed free trade agreement with the US would commit these countries to even greater openness and transparency, which would deepen the roots of democracy, civil society, and the rule of law in the region, as well as reinforce market reforms. These reforms, coupled with the increased trade and investment flows, would promote expanded growth and openness in the region, as well as support common efforts to achieve stronger environmental protection and improved working conditions.

Furthermore, trade negotiations would lead to close cooperation among the Central Americans, thereby advancing Central America's integration and contributing to greater peace, economic cooperation, and stability in the region.

A free trade agreement would be reciprocal, and without a limited term, unlike current statutory trade preference laws, assuring all partners of a long-term outlook that will strengthen North American cooperation with Central America.

This negotiation will complement the US's goal of completing the Free Trade Area of the Americas (FTAA) no later than January 2005 by increasing the momentum in the hemisphere towards lowering barriers, opening markets, and achieving greater transparency. The US already has a free trade agreement with Mexico and Canada, and the Administration expects to complete negotiation for a free trade agreement with Chile this year.

Furthermore, by working us together on common disciplines and trade objectives through bilateral negotiations, the US will enhance the ability of all parties to forge consensus in other multilateral trade negotiations, especially the FTAA.

(*www.whitehouse.gov)*

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# BOOKS/ARTICLES NOTES

## BOOKS

**Towards Economic Integration Through Regional Trade Blocs** by Satinder Palaha and H.L. Sharma, Indian Institute of Foreign Trade, New Delhi, 1996.

THE publication which is an Occasional Paper studies various developments taking place in some of the regional trade blocs, viz. the process of the EU integration, regionalism in South Asia, NAFTA and its impact on trade, and the ASEAN. It states that during the early 1990s, countries all over the world, especially in Europe and western hemisphere, have been forming regional trading arrangements (RTAs) and intensifying existing ones at a rapid pace. The increasing trend towards globalization of markets, it says, is one of the contributing factors for formation of different regional trading blocs.

Further, it focuses on the developments relating to tripolar world economy dominated by North America, Europe, Japan and the "Asian Tigers".

Finally, it mentions that both RTAs and the development of regional blocs have led to an increase in regionalism.

**Prospects for Free Trade in the Americas** by Jeffrey J. Scott, Institute for International Economics, Washington DC, August 2001.

THE publication examines the progress achieved since Miami Summit held in 1994. It discusses the revised and updated readiness indicators for all the 32 countries in Latin America and the Caribbean to assess whether they are ready to enter into a free trade agreement with the United States and Canada.

The publication has been presented in four chapters. Chapter I stresses the need for continuing the process of economic reforms throughout Latin America to undertake, implement and enforce the obligations for building a prospective Free Trade Area of the Americas (FTAA). Chapter II examines the negotiating agenda and the interests of participating countries for a successful outcome of the talks. The concluding chapter gives an account of the challenges being faced by the FTAA and the prospects for concluding it successfully.

**Toward Free Trade in the Americas** edited by Manuel Salazar-Xirinachs and Maryse Robert, Organisation of American States, Brookings Institution Press, Washington DC, 2001.

THE publication contains a set of articles on the issues related to the regional agreements, particularly, the FTAA. It makes an indepth analysis of the recent trends, prospects of trade agreements and integration efforts being made among countries of the western hemisphere. This analysis is made in two categories. The *first* category deals with business activities, as reflected in trade and investment flows among countries of the Americas and with the rest of the world. The *second* pertains to new web of trade agreements. These new agreements, it says, are not only broader in terms of the issues they cover but also more effective in integrating markets.

The book makes a study of the changes that took place in trade policies and regimes in the Americas during 1990s. Further, it examines trade flows among countries within regional groupings and between members of different sub-regional arrangements, and discusses the relative importance of trade in services in the western hemisphere and the substantial increase in foreign direct investment flows to the Americas. It describes the main characteristics of the trade arrangements signed between countries and explores the development of trade rules in these arrangements, as well as the areas of convergence and divergence, and the main challenges being faced in the FTAA negotiations. Finally, the book focuses on the recent developments relating to Free Trade Area of the Americas. It says that interdependence among the countries of the Americas has increased in three related realms: business activities as reflected in trade and investment flows, legal commitments and regulatory framework necessary to implement a free trade regime and strategic interdependence.

The book has been organized in four parts. Part I reviews the trade trends and investment flows in the Americas. Part II deals with all the trade agreements signed between countries in the Americas. It also discusses the developments as on December 2000, relating to the negotiations in progress. Part III examines the evolution and the main challenges in key disciplines. The discipline areas include trade in goods and agriculture, tariffs and non-tariff barriers, rules of origin, and safeguard measures, intellectual property rights, competition policy, government procurement and dispute settlement. Part IV contains an overview of the progress achieved in the FTAA negotiations. The FTAA negotiation process, it says, has already generated a skew of benefits.

In its concluding remark, it says that successful outcome of the trade talks depends on key legislative initiatives in both North and South America.

**The Free Trade Adventure: The WTO, the Uruguay and Globalism—A Critique** by Graham Dunkley, Zed Books, London, 2000.

THE publication provides background of the Uruguay Round and its outcome keeping in view the issues arising from the Round itself.

It has been presented in eight chapters. Chapter I explains how Uruguay Round has helped to usher a new world trading order. Chapter II focuses on problems relating to the Round in particular and Free Trade Adventure in general. Chapter III outlines key elements of the Round and the issues flowing therefrom. Chapter IV introduces a number of key concepts. Chapter V provides a brief background relating to free trade agreements, the rise of multilateralism and GATT. Chapter VI delineates on the outcome of the Round. Chapter VII focuses on regional trade agreements, their relationship to multilateralism and some FTAs, viz. Australia-New Zealand, APEC, NAFTA, and the EU. The concluding chapter examines some of the concerns and criticisms relating to free trade agreements.

# ARTICLES

**Trade Creating or Trade Diverting: The Mercosur Experience** by B. Bhattacharyya and Parthapratim Pal, *Focus WTO*, January-February 2002, Vol. III, No. 5, Indian Institute of Foreign Trade, New Delhi, pp. 1-5.

MAKING an observation at the outset, the article says that of late, it has been witnessed that there has been a proliferation of Regional Trade Agreements (RTAs) in the world trading system. Nearly all the WTO members, it says, have notified their participation in one or more RTAs.

The article mainly focuses on the newly created RTA, known as Mercosur, which is a customs union comprising four Latin American States: Brazil, Argentina, Paraguay and Uruguay. It accounts for about 55 per cent share of the GDP of South America, 60 per cent of its population, and 65 per cent of its geographical area. It was formed under the Treaty of Asuncion, signed on 26 March 1991 by the Presidents of Argentina, Brazil, Paraguay and Uruguay. The Treaty defines in its first article that the agreement aims at achieving the free movement of goods, services and productive factors among the member countries through elimination of the tariff and non-tariff barriers.

The article also contains findings of a study "Export Potential in Mercosur Countries" conducted by the Indian Institute of Foreign Trade. The study points out that geographical proximity and tariff advantage are the main reasons behind the growth of intra-Mercosur trade. India's trade with Mercosur, it says, has increased significantly in the recent years. Finally, the study points out that India because of the special nature of its export basket to Mercosur, may not suffer much from trade diversion.

**FTTA Negotiations: Short Overview**
by Jose Antonio and Rafeel Tiago Juk, *Journal of International Economic Law*, September 2003, 6(3), pp. 661-694.

IN its opening remarks, the article says that the Free Trade Area of the Americas (FTAA), if emerged successful, will be the first free trade area with the largest market and territory on the globe. Not only will it encompass a marketplace of more than 854 million people from Alaska to the Patagonia, involving 34 countries of the hemisphere, but also its features will be diverse, viz. cultures, means of production, and levels of development. The ambitious project of creating a single hemisphere market is currently a dynamic negotiating process which started in 1994 and has made substantial progress. However, completion of the FTAA, it says, depends on the ability of its negotiating parties to sort out their controversial issues, on the one hand, and handle simultaneous trade negotiations, on the other.

The article presents an overview of the structure of the negotiations. Subsequently, it discusses issues, relating to agricultural negotiations, subsidies, anti-dumping and competition policy regimes, intellectual property rights, the regional application of the MFN principle and interplay between the FTAA and other regional trade agreements.

**India-Sri Lanka Trade Transacting Environments in Formal and Informal Trading**
by Nisha Taneja, Muttukrishna Sarvananthan and Sanjib Pohit, *Economic and Political Weekly*, 19-25 July 2003, 38(29), New Delhi, pp. 3094-3099.

THE article says that the Free Trade Agreement between India and Sri Lanka does not address the issue of transaction costs.

The article presents findings of a study relating to the subject. The analysis in the study has been carried out on the basis of results obtained through a survey that was carried out in India and Sri Lanka. The study reveals that transaction costs in formal trading are higher than informal trading and suggests that lowering transaction costs in formal trade could enhance trade between the two countries.

The article has been presented in four sections. Section I deals with the sampling design and methodology used in the study. Section II examines the transacting environment of informal traders. Section III highlights special features of formal trading. Section IV provides statistical tests which were used for making a comparison of the formal and informal trading. Section V focuses on the policy implications arising from the study. In its concluding remark, the article says that formal trade between India and Sri Lanka could be enhanced by lowering transaction costs through exchange of market information, reduction of tariffs, improvements in the transacting environment of formal trade, improving awareness and education levels, and dissemination of information.

**General Dispute Resolution Provisions of the Japan-Singapore Economic Partnership Agreement and the North American Free Trade Agreement** by Joel Davidow and Joseph Whitlock, *Journal of World Investment*, October 2002, pp. 739-768.

THE article provides an in-depth examination of Japan's first FTA. After reviewing trade effects of FTAs and their relationship to the multilateral trading system, the article discusses the evolution of Japan's status towards such agreements, including the Japan-Singapore Economic Partnership Agreement (JSEPA). In its concluding remark, the article says that the JSEPA's general dispute settlement mechanism provides a useful model for future FTAs.

**The EU-Mexico Free Trade Agreement: Incentives, Context and Effects** by Matthias Busse and George Koopmann, *The Journal of World Investment*, November 2001, IV(6), pp. 97-125.

IN its introductory remarks, the article says that the free trade agreement between the EU and Mexico, which came into force on 1 July 2000 is the first comprehensive and reciprocal trade pact concluded between the European countries and those of the Western Hemisphere. The EU, it says, will have better access to the preferential trading area created by the North American Free Trade Agreement (NAFTA) between Mexico, the United States and Canada and an opportunity for further arrangements with Latin American countries such as the members of Mercosur. For Mexico, it says that the agreement is part of a diversification strategy to reduce its dependence on the United States.

The article has been presented in six sections. Section I makes a detailed study of the EU-Mexican bilateral trade and highlights salient features of the FTA. Section II discusses the EU and Mexican trade policy as well as the multilateral context of FTAs. Section III describes methodology to analyze the elimination of a preferential tariff. Section IV uses the model of Clague (1971 and 1972) to study impact of the FTA on trade flows. Section IV makes a detailed analysis to estimate trade effects. Section V examines the possible investment effects. The concluding section presents a summary of the major findings.

In its concluding remark, the article says that the EU will emerge as a major beneficiary from trade creation. Mexico, on the other, will improve its position as an important destination for attracting foreign direct investment.

**FTAs Threatening to Hit Domestic Pepper Trade** by Vinson Kurian, *The Hindu Business Line*, 1 December 2004, p. 8.

THE article points out that India's share of pepper in the world exports is likely to decline steeply as a result of its having signed FTAs with Sri Lanka and Thailand. India and Sri Lanka signed an FTA in 1998 by virtue of which any quantity of pepper can be imported duty-free into India. The result is that Sri Lanka's share in black pepper exports into India which was around 26 to 29 per cent during 1996-98, has more than doubled from 51 to 72 per cent. Secondly, in the case of Indo-Thailand FTA that came into force from 31 August 2004, the FTA brings under its scope a select list of 82 items, which does not include pepper. Since Vietnam and Thailand share a common border with Cambodia, it is feared that Vietnamese black pepper could find a way into India through Thailand.

Further, it says that the advance license scheme under the Exim Policy (2002-07) allows duty free import of raw materials for export production on the condition that some value addition takes place. There is no prescribed minimum percentage of value addition required for re-export. This, it says, provides ample loophole for exporters to manipulate stocks and figures. The net result is that hardly any value addition takes place before re-exports. Imported pepper is just cleaned and shipped out. This practice is found to undermine India's niche market for premium quality pepper abroad and might even wipe out India's share in the world market.

**South-South Trade Cooperation—India Must Further Its Ambitions** by S. Srinath, *The Hindu Business Line*, 3 December 2004, p. 8.

THE article says that regional and preferential trade agreements that the US has entered with Canada, Mexico, Sub-Saharan Africa and the Caribbean are affecting the trading opportunities of developing countries such as India which are not part of any trade bloc. To achieve China-like export growth, India, it says, must adopt the former's mode on Regional Trade Agreements, paving thus the way for South-South Cooperation.

Against the above background, India is now concentrating on establishing Preferential Trade Agreements and Free Trade Agreements. The country recently signed the Protocol with Thailand to implement a bilateral trade agreement under the framework Agreement on Free Trade. India already has an FTA in operation with Sri Lanka and signed one with Afghanistan. Thanks to the trade agreement, India's exports to Sri Lanka rose from $500 million in 2000 to $1.3 billion in 2003-04. Similar trade agreements, it says, are likely to be entered into with Singapore, Malaysia, Indonesia, South Africa, the CIS, Egypt and also a comprehensive Economic Cooperation Agreement with China. The success of these agreements, it says, depends on the following factors:

- How we manage our rupee parity with other major currencies;
- How we monitor and introduce an effective mechanism against escalating crude prices;
- How we create the infrastructure; and
- How well we manage the domestic investment climate for enabling entrepreneurs to tap new markets.

**On the Economic Determinants of Free Trade Agreement** by Scott L. Baier and Jeffrey Bergstrand, Working Paper 290, *Journal of International Economics*, 2004, pp. 29-63.

THE article provides analysis of the economic determinants of the formation of free trade agreements. It has been presented in six sections. Section I makes a comparative analysis on the "pure economics" and the "political economy" of the FTAs. Section II presents the theoretical model. Section III discusses the econometric methodology and data requirements. Section IV presents the empirical results and an evaluation of their robustness. Section V interprets the results. Section VI summarizes the main findings and conclusions.

**India-Asean FTA—Small Step for A Big Stride in World Trade** by Geethanjali Nataraj and Pravakar Sahoo, *The Hindu Business Line*, 22 September 2004, p. 8.

IN its opening remark, the article says that an FTA with Asean will give India an opportunity to look beyond trade. This will undoubtedly bring India closer to achieve its target of 2 per cent share in global trade. For achieving this target, India may have to take bold steps including signing free trade agreements. One such laudable measure taken recently in this direction includes signing of the "India-Asean Comprehensive Cooperation Agreement" on 8 October 2003 in Bali (Indonesia). This FTA, the article says, is expected to create a large market of 1.5 billion people with a combined GDP of $1.2 trillion, and will cover investment and services and trade in goods. This will give India an opportunity to look beyond trade and to areas such as science and technology, information technology, biotechnology, space technology, tourism, and human resource development. This enhanced trade, the article says, will bring India closer to achieve its target of 2 per cent in global trade.

Under the agreement, India has agreed to accord non-reciprocal tariff concessions to Cambodia, Laos, Myanmar and Vietnam on 111 products. Tariffs at 25 per cent or above are to be reduced to 15 per cent, and all tariffs, it says, have to be progressively eliminated by 2007.

Further, the article discusses various bottlenecks that India will have to face in the implementation of these FTAs with its South East Asian partners. It has to continue its efforts and sort out differences through negotiations if it has to benefit from these agreements.

In its concluding remark, the article says that India has no choice but to go ahead with FTAs if it is serious about achieving 2 per cent share in world trade and doubling its share in global merchandise trade by 2009.

**India-Asean Pact to Boost Investment,** *The Business Standard*, 1 December 2004, p. 8.

THE article focuses on the salient features of the recent agreement signed between India and 10 Asean countries, namely Laos, Malaysia, Cambodia, Indonesia, Myanmar, Philippines, Singapore, Thailand, Vietnam, and Brunei. The agreement outlines a multi-pronged plan to boost trade, investment, tourism, culture, sports and people to people contact. This, it says, is a significant move to strengthen economic ties between India and these nations. Under the agreement, both India and Asean countries decided to set up a regional trade and investment area to facilitate flow of foreign direct investment in the region and enhance regional monetary and financial cooperation. The agreement was signed by Prime Minister Manmohan Singh and heads of 10 Asean countries. The agreement lays special emphasis on infrastructure and transport development and cooperation in gas-related projects. Further, both India and Asean countries will work towards establishment of bilateral agreements among member countries of Asean and India for investment promotion and double taxation avoidance. They will also establish linkages between national standards and conformity bodies and technical regulators for the mutual recognition of assessment procedures. Besides, it aims at improving financial stability, regional monetary and financial cooperation apart from further developing capital markets of the region. It also seeks to maximize synergies for promoting trade in goods, services and investment and identifies barriers to trade for addressing them. Under the agreement, India has offered a concessional credit of $200 million to help the least developed countries in Asean such as

Cambodia, Laos, Myanmar and Vietnam in various spheres.

**What Lessons Do Our FTAs Hold for the Future**, *The Economic Times*, 16 November 2004, p. 9.

THE article contains views of Dr Nagesh Kumar, Director General, Research & Information System, Shri Amit Mitra, Secretary General, FICCI and Shri R.K. Dhawan, former Additional Director General, FIEO on the subject of FTAs.

At the outset, Dr. Nagesh Kumar says that any scheme of trade liberalization has to be based on broad assessment of positive overall net benefits. Regional or bilateral free trade agreements (RTAs/ FTAs), he says, have become important tools of a country's trade policy. Over 300 RTAs/FTAs, he says, are currently in different stages of negotiations. More than half of the world trade is now conducted on preferential basis within the FTAs. The trend started with formation of the single European market by European Union in 1992 and the North American Free Trade Agreement (NAFTA) in 1994.

Further, Dr Nagesh Kumar says that any FTA needs to be preceded by a detailed analysis of complementarities. India's FTA policy, he says, needs to keep track of the emerging trends towards regional integration in East Asia. Inability to be part of such a bloc, he says, can affect India's economic and strategic interests adversely by diverting its trade and investments.

Continuing the debate, Amit Mitra says that all the FTAs and RTAs will be of little use in increasing our volume of trade if we do not radically improve our logistics and port infrastructure. He says that India needs a two-pronged strategy. *One*, create FTAs with high GDP developed economies thereby complementing our own capabilities. *Two*, radically reform our infrastructure to support such magnum volumes of trade.

Finally, R.K. Dhawan makes the following points:

- It is necessary to have a free trade agreement signed with various countries;
- While signing the agreement, it has to be ensured that such a free trade agreement permits only those items that are wholly manufactured in country concerned;
- While drawing up the agreement list for FTAs, the items that badly hurt the Indian industry and farmers should be discouraged like cloves, cassia and cinnamon from Sri Lanka and marine products from Thailand;
- To ensure that any such agreement does not violate the WTO guidelines;
- There should be clause in the agreement that products that are subsidized should not be permitted to be imported to India; and finally
- It has to be ensured that dumping of goods is not just permitted and all those parameters that are used for levy of anti-dumping duties, need to be incorporated in the FTA.

**Discover Chile's Business Opportunities**
by R. Vishwanathan, *The Financial Express*, 19 January 2005, p. 6.

GIVING salient features of the Chilean economy, the article says that Chile is the most dynamic and competitive country in Latin America. It has the highest investment grading in the region. The country was the second largest destination ($7.16 billion) for foreign direct investment in Latin America in 2003, ahead of Brazil ($7.1 billion).

Chile has signed free trade agreements with the US, EU, Canada, Korea and many Latin American countries and is currently negotiating FTAs with China, Singapore and New Zealand. India, the article says, is in the process of negotiating a preferential trading agreement (PTA) with Chile which is expected to be concluded in 2005. In its concluding remark, the article says that it is time for Indian businessmen and exporters to realize the importance of Chile and explore opportunities for business.

**Unravelling the Complex Rationale of RTAs**
by Charlotte Seymour-Smith, *The Financial Express*, 3 November 2004, p. 9.

IN its opening remark, the article says that RTAs can impact development and trade only if domestic policies are supportive. Proliferation of regional trade agreements, it says, has been a major development in the world trading system since the mid-1990s. According to the WTO, it says that 250 RTAs are in force, and the number might swell to 300 by the end of 2005. Preferential/reciprocal agreements reportedly cover as much as two-fifths of world trade.

Further giving views of both proponents and opponents of RTAs, it says that proponents argue that the RTAs help nations gradually towards global free trade. On the other, opponents of RTAs argue that proliferating RTAs can impose tremendous burden on customs administration, especially the poorer countries.

In its concluding remarks, the article says that trade performances in several RTAs (NAFTA, EU, Mercosur and SAPTA) show substantial increase in their intra-regional trade. The share of intra-NAFTA trade rose from less than 35 per cent to nearly 50 per cent between late 1980s and 1999.

**A New Form of Regionalism—South-South Trade** by Veena Jha, *The Financial Express*, 3 November 2004, p. 7.

MAKING an observation at the outset, the article says that successful operation of the free trade agreement (FTA) between India and Sri Lanka is an example which show how developing countries can benefit through bilateral trade and gradually move towards a regional free trade area. The operation of the India-Sri Lanka FTA, it says, is unique in the sense that it has been beneficial to both the parties. Bilateral trade between India and Sri Lanka has grown phenomenally by 128 per cent after the operation of the FTA in March 2000. Indian exports to Sri Lanka increased to $1,319 million while Sri Lankan exports to India increased from $44 million to $194 million over the last four years.

Further, the article says that the FTA has put in place the "rules of origin" criteria to avoid any unjustified surge in imports on either side. Notwithstanding, Sri Lankan side has recently complained about some rigidities in the "rules of origin" particularly the requirement of 4 digit HS conversion which they say are inhibiting their potential exports despite high value addition involved. The Sri Lankan side has also complained about some discriminatory sales tax levied on some Indian states which adversely affected their preferential exports. These complaints, it says, are being sorted out amicably.

Besides, FDI outflows from India to Sri Lanka and vice versa have increased significantly since the operation of the FTA. India, it says, is the third largest foreign investor in Sri Lanka with total investment amounting to $400 million. More than half of the Indian investments in SAARC are made in Sri Lanka. Sri Lankan investment in India, on the other, is about $4 million since 1997 which is 11 per cent of the total outward investment of Sri Lanka. The potential areas for investment in Sri Lanka, it says, comprise ports, ICT projects, railways, petroleum exploration, power generation and transmission, film industry, tourism, infrastructure, R&D, health & education.

**Impact of Free Trade on South Asia with Reference to India** by Amal Sarkar, *Foreign Trade Review*, Vol. XXXVIII, Nos. 1&2, April-September 2003, Indian Institute of Foreign Trade, New Delhi.

MAKING an observation at the outset, the article says that in any regional economic cooperation, trade is a key component. SAARC, it says, is not exception to this. The article makes an attempt to study the quantitative impact of duty-free access to India's imports on SAARC countries. Further, it discusses about the need for duty free trade in South Asia.

In its concluding remarks, the article says that India has rich experience in the field of science and technology, heavy and light industries, etc. The country should help the neighbouring countries in these fields to make them self-sufficient in food and manufacturing sector and at the same time to reap the benefits of complementarities of the SAARC economies. Further, SAARC region, it says, should think about an economic union on the line of European Union. To raise joint bargaining power of SAARC member nations, should think about SAARC-ASEAN Free Trade Area. This would enhance competitiveness of the SAARC exports *vis-a-vis* the rest of the world, and lead one step ahead towards globalization programmes of the SAARC economies.

**Cash in on Greater Market Access** by Manab Majumdar, *The Financial Express*, 3 November 2004, p. 7.

AT the outset, the article says that traditionally India has not been very active in the area of free and preferential trade agreements. Recent years, however, it says, have witnessed a marked rise in India's having entered into free trade agreements with a number of countries/regions. FTA, have a positive impact on the members' ability to attract higher volumes of foreign direct investment. India can expect more FDI once economic cooperation agreements between India and Singapore and Asean come into effect. Singapore's FDI in India, it says, is projected to go up to $1 billion within three years of signing of the comprehensive agreement. It will open up new business and trade opportunities for nearly 1,500 Indian companies operating in Singapore.

Further, it says that framework of FTAs should not be confined to goods alone. It should, on the other, involve trade in services, temporary movement of skilled workers and professionals, investment promotion, trade facilitation, and cooperation in various fields.

Selection of partner countries has to be looked at more objectively. FTAs, it says, work best between countries having complementarities in resources and capabilities.

Finally, it says that where the partner country is not in a position to extend duty concession in goods (Singapore has a near zero duty structure), India has to insist for accruing significantly non-reciprocal gains in services and investment. These may include more liberalized and easier access to our service providers and professionals.

**It's Shifting Sands for Domestic Players** by D.S. Rawat, *The Financial Express*, 3 November 2004, p. 7.

IN its opening remark, the article says India must incorporate special provisions in the FTAs with other countries. The Government's recent focus, it says, has been on bilateral and regional trade agreements with major trading partners. This initiative is manifested in negotiations and finalization of preferential trade agreements (PTAs), free trade agreements and comprehensive economic cooperation agreements (CECA) with various countries and regions.

India, it further says, is not member of any trade bloc of significance. The country is now entering into a large number of FTAs starting with Thailand and a CECA with Singapore. As on date, India has two operational FTAs, one with Sri Lanka and the other with Thailand, covering goods and services, investment and economic cooperation. The FTA with Mercosur has progressed well and negotiations are nearing completion. Recently, India has also signed an FTA with Afghanistan. In addition, it would be signing several other FTAs with Asean, South Africa, CIS, Egypt, Gulf Cooperation Council, etc.

Against this background, the four crucial issues that need to be carefully handled concern the rules of the safeguard measures, what products the country can aim at exporting and what products are in deficit. Given the domestic imperatives and the practices internationally, India needs to consider a combination of two or three criteria on the product lines.

Further, it says that as the trend of signing FTAs is gaining momentum, India needs to design the framework of the FTAs keeping in mind the strengths/weaknesses of its economy, in general, and trade and industry, in particular.

In its concluding remark, it says that given the present day rigidities in domestic policies, India must incorporate special provisions for certain sectors in FTAs with other countries.

**Needed: A US-India FTA** by Suman Bery, *Business Standard*, 9 November 2004, p. 11.

IN its opening remark, the article poses a question whether a US-India FTA would better support reform effort than a range of available alternatives. Answering to this question, the article says that the most obvious case for such an FTA would be to establish a legal and institutional framework for keeping trade in information technology services free. While such a service FTA interests India most, the article is skeptical that such an agreement could be restricted to services alone.

The bilateral FTAs that the US has already concluded include a negative list for services, investment provisions with a few sectoral exclusions.

In its concluding remarks, it says that a comprehensive US-India FTA would certainly make India more attractive negotiating partner for third countries. If we are serious about liberalizing and becoming a global force to equalize with China, the idea of a comprehensive US-India FTA has much to commend it.

**Time to Stop Neglecting the Central American Market** by R. Viswanathan, *The Financial Express*, 6 November 2004, p. 7.

THE article explores the possibilities of India's entering into a free trade agreement with the Central American countries, viz. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Belize, Panama, and Domincan Republic. Individual countries, it says, may look small but they have become collectively a sizeable market and strong entity through the formation of a regional group known as Central American Integration System (SICA). This region is also known as Banana Republic. Indian business community, it says, needs to change its mindset and look at the opportunities offered by the new Central America.

Further, it says that this is the right time for the Indian businessmen to target this region. The business and political leaders of this region have started looking at India more seriously for affordable imports, appropriate technologies and inspiration as a role model for development in agriculture, rural development, small-scale industries and information technology. Indian business community, it says, could also make use of the support being given by the Ministry of Commerce & Industry, Government of India under the "Focus-LCA" programme to explore this region. India has already signed a framework agreement for cooperation with SICA in February 2004. Exchange of visits and interactions with individual countries have increased significantly in the recent past. The Indian Government has also been giving Technical and Economic Cooperation scholarships every year for training candidates of these countries. Besides, Exim Bank has extended a credit line to the Central American Bank for Economic Integration. The time is, therefore, right for the Indian companies to enter into this new region offering tremendous opportunities.

**FTAs and Japan** by Kimma Fukunari, *Global Vistas*, Gitam Institute of Foreign Trade, Vol. 3(1), April-June 2004, pp. 1-5.

THE article stresses the need to promote high quality FTAs. Japan, it says, will take the lead in the East Asia FTA. Further, it says that customs unions where member countries standardize their trade barriers with respect to all regions outside the area, can abolish borderlines between countries within the area and allow free transfer of goods. In the case of free trade areas, it says, that certification of origin are required at all times even when multiple network FTAs are established. If differing rules of origin are applied to each respective bilateral FTA, an extremely complicated system will administer the trading of goods within the area. Finally, it says that in order to realize the most through integration, Japan should not pursue trade policy independently, but rather enhance coordination with other areas, such as security, international finance and currency exchange, energy and environment, and economic cooperation. The reorganization of economic cooperation with East Asia is a particularly urgent task. Economic cooperation with East Asia must be reorganized with the promotion of economic integration as a primary objective, and without regard for the link between income level and concessionalities. Drastic reorganization focusing on the advancement of local small and medium-sized enterprises will be necessary.

**Europe and the Americas: Toward A TAFTA-South?** by Jeffrey J. Scott and Barbara Oegg, *The World Economy*, Vol. 24, No. 10, November 2001, pp. 745-759.

THE article examines Europe's trade and investment ties with Latin America and the Caribbean and prospects for the evolution of a TAFTA-South accord. Further, it summarizes the progress in various bilateral and regional trade initiatives. Subsequently, it analyzes bilateral trade and investment flows to determine each side's interests and objectives in pursuing free trade talks. Finally, it makes a detailed study on the implications of European-Latin

American trade arrangements for US-EU relations and for the FTAA.

US firms, it says, will have to compete more aggressively for market share. EU pacts may contribute to the promotion of important US foreign policy objectives. The EU pacts, it says, promote trade and investment in Latin America. Latin American countries will have more flexibility in restructuring their economies to meet global competition. Besides, various reforms introduced in these countries will make it easier for them to undertake and sustain free trade commitments with the United States under the FTAA.

**Governance of International Trade under WTO Agreements—Relationships between WTO Agreements and Other Trade Agreements**
by Mitsuo Matsushita, *Journal of World Trade*, 38(2), April 2004, pp. 183-211.

THE article looks into the relationship between WTO agreements and other trade agreements. Trade agreements, it says, are used in a wide sense and include agreements that deal with financial matters such as the IMF and the World Bank. There are a large number of trade agreements in the world and it is impossible to examine each agreement. Therefore, one has to take some samples of such trade agreements and examine the relationships between them. Further, the article says that it is beyond its scope to explore ways and means of overcoming difficulties arising from the conflicts of norms in international agreements. Finally, the article comes out with various proposals for dealing with the issue of conflict of norms resulting from the international agreements.

**Regionalism within Multilateralism: The WTO Trade Policy Review of Canada** by Keith Head and John Ries, *The World Economy*, Vol. 27, No. 9, September 2004, pp. 1377-1400.

IN its opening remark, the article says that Canada continues to make liberalization efforts in the context of WTO initiatives including the Doha Round. It has been presented in seven sections. Section I discusses the WTO Trade Policy Review of Canada in the context of multilateral trade liberalization. Section II examines patterns and trends in Canadian trade. The section also discusses tariff treatments for different trade partners and Canada's trade performance with poor countries. Section III reviews the economic consequences of preferential trade agreements and the evidence on trade creation and diversion in Canada's primary regional trade agreements. Section IV discusses NAFTA rules of origin and the difficulty of complying with a growing number of anti-dumping investigations and measures in Canada. Section V evaluates Canada's use of anti-dumping measures in comparison with other users. Sections VI & VII speak about developments in the agri-food, textiles & clothing sectors. The concluding section summarizes the main elements of the WTO's 2003 "Evaluation of Canada".

**SAFTA Treaty to Boost Indo-Pak Trade**
by Richa Mishra, *The Hindu Business Line*, 27 January 2004, p. 6.

THE article gives the main findings of a study conducted by the FICCI. The India-Pakistan trade, the study says is likely to rise manifold with the signing of the framework treaty on South Asian Free Trade Area (SAFTA). The treaty, it says, would enable the South Asian region to emerge as a global player in trade and investment. SAFTA, it says, would also help in legalizing the informal trade, which is estimated at not less than \$1.5 billion to \$2 billion.

Commenting on the impact of SAFTA on the trade between India and Pakistan, the study says that India and Pakistan are seen commanding a major share of the intra-SAARC trade, which is currently estimated at around \$6 billion.

Further, it says that with the signing of the framework treaty, the issue of Most Favoured Nation (MFN) treatment by Pakistan to India may finally be resolved due to the extension of MFN principle.

Finally, the study says that SAFTA would immensely benefit Pakistan as it would enable it to import tea, auto parts, consumer durables, pharmaceuticals and films from India at cheaper prices. Apart from tea, Pakistan could also benefit by exporting cotton and textiles to India.

**Integrating Economies into Growth**
by Nagesh Kumar, *The Financial Express*,
1 February 2005, p. 6.

THE article discusses about benefits which India is going to reap by signing various free trade agreements. These include Framework Agreement on South Asian Free Trade Area (Safta), the SAARC Preferential Trading Agreement (Sapta), the Bimstec, a grouping of Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand. As five of the SAARC members have already signed the Bimstec, building a consensus may not be difficult. In its concluding remark, it says that regional economic integration in South Asia has the potential to generate billions of dollars of income, employment, trade and could help the region in its fight against poverty among other benefits.

**A Welcome Collaborative Effort**
edited by Suman Bery, Barry Bosworth and Arvind Panagariya, *Business Standard*,
7 February 2005, p. 8.

THE article discusses about the main findings of the paper by Lawrence and Chadha on "Indo-US Free Trade Agreement". India, it says, will benefit more from such an agreement than from an "excessive" reliance on the WTO. India's main concern should be to establish the institutional and legal frameworks that keep the nascent trade in IT free.

The paper further points out that the US had begun to move away from multilateralism way back in the 1980s, and had enforced into free trade agreements with Canada and Israel in 1983. This process has accelerated and the US may well like the strategic benefits of an FTA with India.

**No Sigh for Thai FTA,** *The Financial Express*,
22 February 2005, p. 6.

IN its opening remarks, the article says that *prima facie* data on Indo-Thai trade in the three months after signing of the Indo-Thai FTA suggests that a re-assessment is called for. But that would be a hasty conclusion. To be sure, Thailand does seem to have got the better of the deal. While Thai exports to India during the first three months, post-FTA, stood at $50 million, Indian exports to Thailand were much lower at just $125,000. But in the absence of comparable data for the preceding months, it is difficult to come to any definitive conclusion about whether there has, in fact, been a surge in imports in the 82 specific items covered under the FTA where duties will be eliminated by 2006. These items account for 7 per cent of the Indo-Thai trade. The data, however, suggest that there is a strong case for re-doing our homework on a number of fronts.

*First*, we need to establish whether there has actually been a surge in imports from Thailand, and if so, in which items. *Second*, we must examine whether Thailand has violated the terms of the FTA with regard to the complex rules of origin under the treaty. The idea, it says, is to ensure that the items exported to India from Thailand are not goods transiting through but are genuinely "Made in Thailand". *Third*, we need to see whether Indian manufacturers of these items are globally competitive. If they are intrinsically competitive but are unable to compete because they are shackled by extraneous factors such as poor infrastructure, high transaction cost, inflexible labour laws, high rates of interest and so on, then clearly what we need to do is to focus on removing these impediments.

*Finally*, making reference of a recent World Bank report, it says that Thailand has the best business climate in South East Asia in terms of basics such as ease of starting a business, hiring and firing workers, registering property, obtaining credit and enforcing contracts. Whereas in India, business have to routinely grapple with red-tape, inspector-raj is endemic, infrastructure is poor, customs duties high and often inverted and labour laws that make labour virtually inflexible.

In its concluding remarks, it says that no wonder Thai manufacturers have been able to reap the benefits of the FTA. But there is no reason why we should allow them to continue to do so. Sure, their superior business environment gives them first-mover advantage. But the lesson to draw from this is not to blame FTAs. But to move faster on reforms.

**India, Singapore Sort Out ROO Issue**
by Amiti Sen and Huma Siddiqui,
*The Financial Express*, 22 February 2005, p. 9.

MAKING an observation at the outset, the article states that India and Singapore have sorted out the Rules of Origin (ROO) issue and finalized the goods component of the Comprehensive Economic Cooperation Agreement (CECA) being worked out by the two. Although, both the countries have to iron out some differences on the services side, the Indian Commerce Ministry is hopeful that the agreement would be in place in the next two months.

Commerce Secretaries of both the countries had met earlier this month to expedite CECA which covers goods, services and investment. According to them, there are some problems in the services side which need to be settled. Notwithstanding both the countries are hopeful that CECA would be in place by the end of April 2005.

Agreement on the ROO between India and Singapore, it says, is a major breakthrough. ROO determines the percentage of local value addition that entitle exports from participating countries to concessional tariffs in the importing country.

While Singapore has agreed to go by India's demand of using both value addition and change in tariff heading criteria for determining ROO, India has allowed it a "short" list of sensitive products which would get special treatment.

Singapore, it further says, had earlier insisted that only the value added criterion should be used for determining ROO. Under this, any product whose value has been enhanced by 40 per cent would be eligible for exports under CECA. Even if the value addition to the product was mainly due to high rent or high wages, it would still qualify for exports.

In its concluding remark, the article says that Singapore wants to move fast in liberalizing services. A negotiator from the Indian side added it was quite possible that CECA would initially include just goods and gradually cover services and investment.

**India has a Pivotal Role to Play in SAARC Trade Expansion** by Mahendra P. Lama, *The Financial Express*, 29 February 2005, p. 7.

THE article focuses on the major issues deliberated at the last SAARC Summit held in Islamabad where a framework agreement on South Asian Free Trade Area (SAFTA), was signed. The same will be ratified and implemented with effect from 2006. Till then, the SAARC member countries, it says, have to thrash out the four crucial issues, namely formulation of rules of origin, preparation of the "sensitive" or the negative list, creation of a fund for compensating Least Developed Countries (LDCs) for loss of revenue from the elimination of customs duties, and identification of areas for providing technical assistance to these countries.

The tariff reduction schedule, as agreed upon in the agreement, it says, falls far short of expectations. There are serious in-built limitations and hurdles. However, the full implementation of SAFTA could even make the non-extension of most favoured nation (MFN) by Pakistan to India infructuous. Four least developed countries, Bangladesh, Bhutan, the Maldives and Nepal, are worried about the revenue loss, as customs revenue constitutes a large portion of their total revenue generation.

Further, it says that unlike NAFTA and the EU, there has been no attempt to scientifically conduct the procedures of rules of origin through professionally trained manpower and well equipped institutions. The size of the negative list in the free agreement, it says, is a vital question. India, it says, has to play a pivotal role in all these four areas. It has to fully use the option of investing in manufacturing sector in these countries with arrangements like buy-back. A free trade regime requires not only a total reorientation of the existing systems and legal regimes, but also a massive intervention in institutional reforms and infrastructural capacities. Given its relative strength, India has to unhesitatingly initiate comprehensive trade facilitating measures and strengthen these capacities.

Finally, it says that for more integration of regional markets, SAARC has to follow a three-pronged approach involving liberalization, facilitation and promotion. Even within SAFTA, there are definitely more effective ways to enhance intra-regional trade. This should include tariff reduction on a sectoral and across the board basis and through direct trade measures. An equally attractive option for India is to provide unilateral free access to imports from SAARC countries. The country thus has an opportunity to introduce this fast-track instrument in the forthcoming summit in Dhaka.

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DOCUMENTS

# BIMST-EC Free Trade Agreement

THE initiative to establish Bangladesh-India-Sri Lanka-Thailand Economic Cooperation (BIST-EC) was taken by Thailand in 1994 to explore economic cooperation on a sub-regional basis involving contiguous countries of South East & South Asia grouped around the Bay of Bengal. Myanmar was admitted in December, 1997 and the initiative was renamed as BIMST-EC. It may be mentioned that the initiative involves 3 members of SAARC (India, Bangladesh & Sri Lanka) and 2 members of ASEAN (Thailand, Myanmar). BIMST-EC is visualized as a "bridging link" between two major regional groupings, i.e. ASEAN and SAARC. BIMST-EC is an important element in India's "Look East" strategy and adds a new dimension to our economic cooperation with South East Asian countries.

The first meeting of the Economic/Trade Ministers of BIMST-EC which was held in Bangkok in August 1998, imparted a new dimension to economic cooperation between the member states. It was agreed that BIMST-EC should aim and strive to develop into a Free Trade Area, and should focus on activities that facilitate trade, increase investment and promote technical cooperation among member countries. It was further reiterated that BIMST-EC activities should be designed to form a bridge linking ASEAN and SAARC. Six areas were identified for cooperation in BIMST-EC, namely trade and investment, technology, transportation and communication, energy, tourism and fisheries. In the 4th BIMST-EC Trade & Economic Ministers Meeting held in Colombo on 7 March 2003, the Ministers decided to constitute a Group of Experts (GOE) for drafting the Framework Agreement on BIMST-EC Free Trade Area (FTA). Sri Lanka was the Chair for the GOE to draft this agreement. The GOE finalized the text of the draft Framework Agreement on BIMST-EC FTA, in its four meetings and submitted its Report for consideration to the Ministers, through the BIMST-EC Senior Trade/Economic Officials' meeting that was held on 14-15 January 2004 in Bangkok, Thailand.

The Framework Agreement on the BIMST-EC FTA was signed on 8 February 2004 in Phuket, Thailand by Bhutan, India, Myanmar, Nepal, Sri Lanka and Thailand during the Fifth BIMST-EC Economic Ministers' Meeting. Bhutan and Nepal had joined BIMST-EC as new members formally only the day prior to the signing of the Framework Agreement. Bangladesh had participated in the GOE all along for drafting the Framework Agreement, but did not sign it. In February 2004, however, it later expressed its interest in signing the Agreement and has acceded by signing a Protocol to this effect in June 2004.

The Framework Agreement includes provisions for negotiations on FTA in goods, services and investment. The major highlights of the Framework Agreement are as follows:

(i) **FTA in Goods**

The negotiations for tariff reduction/elimination for FTA in goods shall commence in July 2004 and be concluded by December 2005. The negotiations will be held to finalize the negative list items, on which no-tariff concessions will be exchanged to begin with. The tariff liberalization on rest of the items would be done by following the two tracks mentioned below:

- ***Fast Track:*** Products listed in the Fast Track by a Party on its own accord shall have their respective applied MFN tariff rates gradually reduced/eliminated in accordance with specified rates to be mutually agreed by the Parties, within the following timeframe:

| Countries | For Developing Country Parties | For LDC Parties |
|---|---|---|
| India, Sri Lanka and Thailand | 1 July 2006 to 30 June 2009 | 1 July 2006 to 30 June 2007 |
| Bangladesh, Bhutan, Myanmar and Nepal | 1 July 2006 to 30 June 2011 | 1 July 2006 to 30 June 2009 |

- ***Normal Track:*** Products listed in the Normal Track by a Party on its own accord shall have their respective applied MFN tariff rates gradually reduced/eliminated in accordance with specified rates to be mutually agreed by the Parties, within the following timeframe :

| Countries | For Developing Country Parties | For LDC Parties |
|---|---|---|
| India, Sri Lanka and Thailand | 1 July 2007 to 30 June 2012 | 1 July 2007 to 30 June 2010 |
| Bangladesh, Bhutan, Myanmar and Nepal | 1 July 2007 to 30 June 2017 | 1 July 2007 to 30 June 2015 |

**(ii) FTA in Services and Investments**

- For trade in services and trade in investments, the negotiations on the respective Agreements shall commence in 2005 and be concluded by 2007.
- The identification, liberalization, etc., of the sectors of services/investments shall be finalized for implementation subsequently in accordance with the timeframes to be mutually agreed: (a) taking into account the sensitive sectors of the Parties; and (b) with special and differential treatment and flexibility for the LDC Parties.

**Current Status**

Member countries have constituted the Trade Negotiating Committee to carry forward the programme, as stipulated in the Framework Agreement. Thailand is the chair country for the TNC. The first TNC meeting was held in Bangkok on 7-8 September 2004 where the TNC finalized its Terms of Reference as well as work programme for the year 2004.

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# Framework Agreement for Establishing Free Trade between India and Thailand

IN November 2001, the Prime Ministers of India and Thailand agreed to set up a Joint Working Group (JWG) to undertake a feasibility study on a Free Trade Agreement between India and Thailand. The Joint Working Group observed that the present policy regimes in both the countries are quite conducive to more intensive bilateral economic integration and a Free Trade Agreement could prove to be a building block for other sub-regional, regional and global economic integration processes of which both countries are a part. Having observed rich potential of trade expansion, the study concluded that the proposed Free Trade Agreement between India and Thailand is feasible, desirable and mutually beneficial. Accordingly, a Joint Negotiating Group was set up to draft the Framework Agreement on India-Thailand FTA.

During the visit of Indian Prime Minister to Thailand, a Framework Agreement for establishing Free Trade Area between India and Thailand was signed by the Commerce Ministers of the two sides on 9 October 2003 in Bangkok, Thailand. The signing of the Framework Agreement was done in the presence of the Prime Ministers of India and Thailand. The key elements of the Framework Agreement cover FTA in Goods, Services and Investment, and Areas of Economic Cooperation. The Framework Agreement also provides for an Early Harvest Scheme (EHS) under which common items of export interest to both sides have been agreed for elimination of tariffs on a fast track basis. The EHS items were finalized in consultation with the apex Chambers and Ministries/ Departments concerned. The EHS list has been finalized through negotiations based on full reciprocity in terms of trade value between India and Thailand. For the period 2001-2002, exports to Thailand on the EHS items amounted to US$ 33.3 million while imports from Thailand during the same period were to the tune of US$ 38.5 million. The other highlights of various components of the Framework Agreement are as follows:

(i) **FTA in Goods**

- Negotiations to commence in January 2004 and conclude by March 2005.
- Establishment of Free Trade Area (zero duty imports) by 2010.

(ii) **FTA in Services**

- Negotiations to commence in January 2004 and conclude by January 2006.

(iii) **FTA in Investments**

- Negotiations to commence in January 2004 and conclude by January 2006.

(iv) **Areas of Economic Cooperation**

- Areas of economic cooperation to include trade facilitation measures; sectors identified for cooperation; and trade & investment promotion measures.

(v) **Early Harvest Scheme (EHS)**

- Both sides have agreed to have a common list of items for exchange of tariff concessions.
- Tariffs on these items will be phased out in 2 years timeframe starting from 1 March 2004. Since the two sides were not able to finalize the Interim Rules of Origin in time, the implementation of the EHS had to be deferred.

**Current Status**

The tariff concessions on 82 items of EHS list began from 1.9.2004 with the signing of the Protocol between India & Thailand on 30 August 2004 in New Delhi.

India Thailand Trade Negotiating Committee (TNC) has been constituted to carry forward the programme of negotiations as per the Framework Agreement. Four meetings of the TNC have been held so far.

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# India-Sri Lanka Bilateral Free Trade Area and the Proposal for Comprehensive Economic Partnership Agreement

A Bilateral Free Trade Agreement was signed between the Prime Ministers of India and Sri Lanka in New Delhi on 28 December 1998 and has been in operation since March 2000. This was the first FTA India had signed by then.

The Agreement seeks to establish a Free Trade Area (FTA) through elimination of tariffs in a phased manner as under:

(a) ***India's Commitments:*** India would reduce tariffs to zero on 1,350 tariff lines immediately on implementation of the Agreement. For the rest, except 429 items included in the Negative List, across the board duty free access would be given over a period of 3 years from the date of implementation of the Agreement. There is a tariff rate quota on tea for 15 million kg. and on garments for 8 million pieces. From 18 March 2003, India's commitment of duty reduction has been completed. The items in the Negative List of 429 tariff lines at 6 digit level of Harmonized Code are from various sectors like rubber and rubber products, paper and paper boards, plastics and products thereof, coconuts, alcoholic beverages, textile items, etc.

(b) ***Sri Lanka's Commitments:*** Sri Lanka would give 100 per cent duty concessions on 319 tariff lines on the date of operationalization of the Agreement. In addition, it has given 50 per cent tariff concessions on 839 tariff lines on the date of operationalization of the Agreement which has been deepened to 100 per cent as on today. For the remaining items, Sri Lanka would reduce tariffs to zero per cent over a period of 8 years in three phases, i.e. by 35, 70 and 100 per cent before the expiry of 3rd , 6th and 8th year respectively. In other words, India's exports on these items get 35 per cent duty concessions from Sri Lanka as on today. Sri Lanka's Negative List comprises 1,180 tariff lines.

The preferential trade under the FTA is governed by the Rules of Origin which specify three criteria, namely: (i) the domestic value addition should be 35 per cent, (ii) inputs to undergo substantial transformation at 4 digit level of customs harmonized code, and (iii) a list of operations like simple packing, cutting, assembly, etc. have been defined which would not qualify for duty free market access. If the raw material/inputs are sourced from one country by the other, the value addition is reduced to 25 per cent within the overall limit of 35 per cent.

The lists for exchange of tariff concessions and procedures were finalized through Letters of Exchange between Commerce Secretary, Government of India and Treasury Secretary, Government of Sri Lanka on 2 February 2000. Subsequently, the Agreement was implemented after issuance of Customs Notification by Sri Lanka on 15 February 2000 and by India on 1 March 2000 and related notifications issued in May 2000. The Tariff Rate Quota Mechanisms for import of Tea and Garments were finalized in April 2000 in New Delhi.

**From FTA to Comprehensive Economic Partnership Agreement (CEPA)**

When the Prime Ministers of India and Sri Lanka met in New Delhi in June 2002, they took cognizance of the significant expansion of trade made possible by the ISLFTA. However, they also noted that there was much scope for expanding the areas of coverage of economic cooperation. Accordingly, a Joint Study Group (JSG) was set up to explore ways and means of deepening and widening economic cooperation through a Comprehensive Economic Partnership Agreement (CEPA). Dr. Rakesh Mohan, Dy. Governor of RBI was the Co-Chair of the JSG. The JSG completed its study and had submitted its report to two Prime Ministers in October 2003 in New Delhi.

The summary of recommendations of the JSG was to:

- Enter into a Comprehensive Economic Partnership Agreement.
- Build upon the ISLFTA by deepening and widening the coverage of trade in goods.
- Enter into broad negotiations covering all service sectors and modes of supply under the GATS framework.

- Facilitate greater investment flows by addressing identified regulatory and operational constraints.
- Implement measures to enhance economic cooperation to complement trade and investment liberalization.
- Complete negotiations on the CEPA within 4-6 months.
- Establish institutional mechanisms to monitor the progress of the CEPA so that the objectives are realized.
- Facilitate interaction between, and participation of, the private sectors of the two countries in the negotiations of the CEPA and its implementation.

The first meeting on CEPA at the Commerce Secretary level was held on 18 August 2004 in Colombo. In this meeting, both sides highlighted the importance of deepening and broadening the scope of ISLFTA to CEPA. It was primarily an exploratory discussion broadly covering the scope of CEPA as well as use of JSG Report as a reference document for possible approaches and negotiations. This Ministry is having inter-ministerial consultations for proceeding further in this regard.

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# Agreement on South Asian Free Trade Area (SAFTA)

SOUTH Asian Association for Regional Cooperation (SAARC) consists of seven countries, namely Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. A regional trade bloc among these members was formed when SAARC Preferential Trading Arrangement (SAPTA) was signed in April 1993 for giving preferential market access to the exports of the member countries in a limited way. Four rounds of negotiations have been completed and no further round is now contemplated following the signing of Agreement on SAFTA.

At the 9th SAARC Summit held in Male in May 1997, the Heads of State or Government recognized the importance of achieving a free trade area by the year 2001 and reiterated that steps towards trade liberalization must take into account the special needs of the smaller and the Least Developed Countries and that benefits must accrue equitably.

The mandate of the Tenth SAARC Summit held at Colombo in July 1998, reads as follows:

> "*The Heads of State or Government reiterated the importance of achieving SAFTA as mandated by the Ninth SAARC Summit. To this end they decided that a Committee of Experts, in consultation with Member States, be constituted with specific Terms of Reference (TOR) to work on drafting a comprehensive treaty regime for creating a free trade area. The Heads of State or Government expressed the view that such a treaty must incorporate, among other things, binding time-frames for freeing trade, measures to facilitate trade, and provisions to ensure an equitable distribution of benefits of trade to all States, especially for smaller and least developed countries, including mechanisms for compensation of revenue loss. They emphasized the importance of finalizing the text of regulatory framework by the year 2001.*"

In its first meeting held at the SAARC Secretariat, Kathmandu, in July 1999, the Committee of Experts (COE) finalized the Terms of Reference for drafting the SAFTA treaty. However, further meetings of the COE could not take place for almost three years due to inconvenience of dates proposed by the SAARC Secretariat for some member countries.

In the 11th SAARC Summit held at Kathmandu, Nepal in January 2002, the following was decided:

> "*Recognizing the need to move quickly towards a South Asian Free Trade Area, the Heads of State or Government directed the Council of Ministers to finalize the text of the Draft Treaty Framework by the end of 2002. They also directed that in moving towards the goal of SAFTA, the Member States expedite action to remove tariff and non-tariff barriers and structural impediments to free trade.*"

The COE held several meetings during 2002 and 2003 in Kathmandu to finalize the text of the Agreement. Some of the contentious issues were finally resolved in the Council of Ministers (Foreign Ministers) Meeting on 2-3 January 2004 and the Agreement was signed during the 12th SAARC Summit held in Islamabad on 4-6 January 2004.

The Agreement provides for free trade in goods among SAARC member countries. The highlights of the Agreement are as under:

***(a) Trade Liberalization Programme (TLP)***

The Agreement provides for the following schedule of tariff reductions :

(i) *Non-Least Developed Country (Non-LDC) Members of SAARC (India, Pakistan and Sri Lanka):* Non-LDC countries would reduce their existing tariffs to 20 per cent within a timeframe of two years from the date of coming into force of the Agreement. If the actual tariff rates are below 20 per cent, then there shall be an annual reduction of 10 per cent on Margin of Preference basis for each of the two years. The subsequent tariff reductions from 20 per cent or below to 0-5 per cent shall be done within a period of five (for Sri Lanka it is six) years, beginning from the third year from the date of coming into force of the Agreement.

(ii) *Least Developed Country (LDC) Members of SAARC (Bangladesh, Bhutan, Maldives and Nepal):* The LDC member countries would reduce their existing tariff to 30 per cent within a timeframe of two years from the date of coming into force of the Agreement. If actual tariff rates are below 30 per cent, there will be an annual reduction of 5 per cent on Margin of Preference basis for each of the two years. The subsequent tariff reductions from 30 per cent or below to 0-5 per cent shall be done within a period of eight years, beginning from the third year from the date of coming into force of the Agreement. *Notwithstanding the above provisions, the Non-LDC member States shall reduce their tariffs to 0-5 per cent for the products of the LDC member States within a period of three years beginning from the date of coming into force of the Agreement.*

(iii) *Sensitive List:* Each country will maintain a sensitive list to protect the interests of the domestic stakeholders. This will be subject to a maximum ceiling and shall be finalized after negotiations among the Contracting States with flexibility to the Least Developed Contracting States to seek derogation in respect of the products of their export interest. This in effect means that the Non-LDC Member States would maintain smaller Sensitive List for the LDC member States. The Sensitive Lists are subject to review after every four years or earlier with a view to reducing the number of items which are to be traded freely among the SAARC countries.

(b) The Agreement also provides for institutional mechanism of SAFTA Ministerial Council (SMC); Safeguard Measures in case of surge in imports of product(s) covered under SAFTA concessions; and a detailed Dispute Settlement Mechanism.

(c) **Special Provisions for LDCs**: Apart from provisions for longer phase out schedules and longer Sensitive Lists to be maintained by the LDCs, it provides for technical assistance in trade related areas and some relaxations for imposing safeguard measures against LDCs. The Agreement also provides, as mandated in the 10th SAARC Summit, for compensation of revenue to LDCs who suffer from loss of customs revenue due to the implementation of the Trade Liberalization Programme, the operational modalities of which are to be worked out through further negotiations.

(d) **Implementation:** SAFTA agreement will enter into force on 1 January 2006 upon completion of negotiations on Sensitive Lists, Rules of Origin, Revenue loss Compensation Mechanism for LDCs. These negotiations would be carried out by the existing Committee of Experts and are expected to be completed by the end of June 2005.

**Current Status**

The Committee of Experts (COE) has already had five rounds of negotiations since January this year when the Agreement was signed. The discussions on the leftover agenda as reflected in (d) above are proceeding on the expected lines and we are hopeful that the COE would be able to complete its task by the end of June 2005.

This Agreement shall supersede the Agreement on SAARC Preferential Trading Arrangement (SAPTA).

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ISSN 0972-2076

Printed and published by **P.K. Puri,** Registrar, for Indian Institute of Foreign Trade, B-21 Qutab Institutional Area, New Delhi-110016 at Public S. Printers, Okhla Industrial Estate, New Delhi-110020.