FOCUS WTO

VOL. 15 NO. 2

FREE TRADE AGREEMENT

JULY-AUGUST 2013

INDIAN INSTITUTE OF FOREIGN TRADE

FOCUS WTO

VOL. 15 NO. 2 • JULY-AUGUST 2013

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The Institute brings out the bi-monthly Magazine, *FOCUS WTO* exclusively dealing with WTO and WTO-related issues. Each issue is dedicated to a particular theme. A distinct feature of the Magazine is its section, "Lead Articles" focusing on the theme. As the next issue is devoted to the theme "Rules of Origin", we at *FOCUS WTO* invite highly analytical articles focusing on the theme for publication in the Magazine with a word limit between 3000 and 3500.

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Single Copy	₹200 $20 (Air Mail)
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From the Director's Desk

Dr. Surajit Mitra

Delay in Doha development benefits has led to a renewed interest in formation of regional trade agreements (RTAs) among WTO member countries. Since 2001, RTAs have proliferated over the years leading to almost every member country becoming a member of some or the other trading blocs. Currently, there are 380 RTAs in operation across continents in the form of FTA, PTA, Customs Union, Common Market, etc.

India is a member of several such trading arrangements like Indo-Sri Lanka FTA, India-SAARC regional agreements, Indo-ASEAN FTA, India-Singapore trade agreements, India-Mercosur PTA, India-Chile PTA, etc. These trading arrangements provide India and its partner countries ample opportunities to integrate globally. India's aspiration to emerge a key player in world economy gets supplemented through this exercise as it gets preferential market access to a number of countries.

Challenges and opportunities that India faces in terms of entering into PTA with other countries are many. *First*, emergence of FTAs like ASEAN, NAFTA and slow progress of multilateral trade negotiations led to loss of India's export opportunities in world market. India looked for competitive partners to garner its world of export share with countries it was comfortable with.

Second, as more and more countries emerge from low income level to middle or high income level, demand for products and services significantly grew in this market. This coupled with falling demand from USA and EU propelled India to siege the opportunities in countries like Mercosur and ASEAN.

Third, PTAs play an important role in global value chain. India joining PTAs with a number of countries allow it to innovate and develop certain specialized products which are either intermediary or final, but have a huge scope in global market.These products secure globally a competitive position for India.

Fourth, India's core competence still lies in services sector. Being an important driver of GDP, it has huge potential to contribute to the economy. Services so far has not been included in the PTA negotiations in a major way. There is a need to push forward services in future PTA negotiations to optimize its full potential in world market.

Lastly, PTAs are also used as an instrument to foster peace and stability in the region. The long-term political and ethnic hostility among various member countries to an extent can be minimized with the signing of PTAs. In other words, formation of PTAs can be seen as a strategic move to consolidate trade and increase regional security among member countries.

PTAs and India: Emerging Challenges and Opportunities

Venugopal Ravindran* *and* ***Reena Purohit****

As the world trade scenario is undergoing a huge makeover in terms of shifts in policy focus towards preferential and plurilateral agreements, two broad challenges that India faces are managing its own increasing number of PTA negotiations and guarding against the exogenous shocks inflicted by external PTAs to which India is not a party. In light of these, India needs to analyze the pros and cons of such arrangements and take advantage of such designs.
It also needs to address the issues of multilateralism in a cogent and respectful manner as it is one of the founding members of the WTO. While doing this exercise there is a need to involve more stake-holders to address the first challenge and engage aggressively in negotiations to get a better deal for itself, given that some of the PTAs have not been as fruitful as expected. To mitigate the effects of external PTAs, India needs to undertake ex-ante studies on the possible effects.

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Introduction: PTAs as Paths to Global Reach

COUNTRIES world over have been increasingly seizing opportunities for expanding export markets through Preferential Trade Agreements (PTAs) for the past two decades.[1] The urgency for improving economic fortunes of domestic stakeholders, whether producers, consumers or intermediaries, has been stronger in the developing world, as trade liberalization policies became even more linked with economic growth and poverty reduction. De and Bhattacharyay (2007) show that trade openness coupled with improved infrastructure must be a key component of policies to accelerate economic growth in South Asia. Countries that have integrated into the global economy have managed to reduce poverty in the long run and PTAs play an important role in helping countries to integrate with the world economy.

India is no exception to the global trend as can be seen from its increasing engagements in preferential trade negotiations with a number of countries and regional blocs. As India aspires to make herself a major exporting hub using its National Foreign Trade Policy, engagements such as PTAs are seen as necessary policy supplements in order to earn advantages for its emerging sectors through preferential market access. As a giant emerging economy, India has the advantage of being an attractive trading partner, and thus is presented with ample opportunities to scale-up trade relations with the rest of the world through PTAs with relative ease.

However, developing and managing trade relations through PTAs comes with its own sets of challenges. The complexities associated with trade negotiations, both plurilateral and multilateral, take its toll on the limited negotiating resources available with countries like India. Moreover, it is to be noted that numerous signed trade agreements and on-going trade negotiations elsewhere that exclude India also poses the threat of eroding market advantages that India has been in possession for a long time.

In this context, this paper traces some of the emerging opportunities and challenges facing India with respect to preferential trade negotiations that the country is engaged in as well as with respect to external trade negotiations in which it is not a party to. In doing so, we refer to some features of the Indian economy that made it conducive for engaging in PTAs. In the light of this discussion, certain future strategies that may be useful to consider in PTA negotiations are drawn.

Drivers of Indian Aspirations

During the initial years of reform period in the early 1990s, India focused on multilateralism as the tool for securing external market access. Being a founding member of the GATT and major participant in the transformation into the WTO, India contributed to and benefitted from multilateral trade negotiations. But with the emergence of ASEAN, NAFTA and other successful FTAs coupled with the slow progress in the negotiation process at the WTO, India's outlook on international trade negotiations underwent a gradual shift. It can be argued that India too resorted to preferential trading as a defensive strategy against loss of markets, rather than as a proactive strategy to expand markets. This discussion in the trade policy outlook was forced to a large extent by the deepening of preferential trade relations in other parts of the world and the government decided to respond to it by actively seeking new avenues of preferential trade relations. The result is several bilateral trade agreements, Free Trade Agreements (FTAs) and Comprehensive Economic Cooperation Agreements (CECA) that were signed by 2005 and many more in the process of negotiations since then. To date India has signed 19 agreements and around 21 agreements are currently being negotiated and are at various stages of progress.[2]

Even as the number of PTAs has proliferated, the size of the WTO membership has been increasing, and today stands at 159. Countries remain committed to multilateralism, although no significant forward movement is noticeable. To date, India's approach towards development of international trade relations is firmly grounded on this realization.

The primary objective of the National Foreign Trade Policy 2009-14 is to provide a stable and conducive environment for increasing exports. Some of its key objectives include 25 per cent annual growth in exports by 2014, doubling of Indian share in global trade by 2020, improving export related infrastructure, reducing transaction costs through trade facilitation measures, and securing enhanced market access, among others. It also aims for diversification of export markets with focus on new markets like Africa, Latin America, Oceania and emerging Central Asian nations. Thus the domestic trade policy imperatives clearly underline India's desire to explore new export markets through PTAs.

India's search for new markets also shows the changing patterns in the world economy. As more and more economies emerge from low income level to higher income level, countries are trying to seize these opportunities to tap into the newly created demand by building new trade agreements. This coupled with falling demand from India's traditional markets like US and EU can be seen as a reason for surge in PTAs outside the traditional market. The number of PTAs signed recently by India validates this trend, for example, India-MERCOSUR PTA, India-ASEAN FTA, India-Chile PTA, and the Asia Pacific Trade Agreement.

These PTAs play an important role in integrating a country into the global value chain. Being a part of a value chain gives a country certain central advantages.[3] The preference given by a PTA to a country can make its products more competitive and help the country play a vital role in the value chain. Preferences are sort of products either intermediary or final in these agreements, so that the country can specialize in producing that particular product and become competent.

However, not all PTAs are based on economic rationale and it would be naïve to assume that trade negotiations are based only on economic considerations. A number of political motives are also attributed to the growth of PTAs. Initially, such agreements were largely governed by geo-economic reasons and were not merely economic instruments. PTAs are often used as tools to reinforce diplomatic relationships between countries. Such agreements are entered into with the intention of pooling in common resources, warding off external threat by showing regional solidarity, increasing collective bargaining power at the multilateral level, etc. Some of the earlier PTAs signed by India, especially with neighbouring countries, can be seen as engagements made more for political and diplomatic reasons than economical. Over the years, PTAs have stopped being mere enhancement of trade in goods and services; its scope has become wider and includes establishment and achievement of comprehensive economic goals.

India's engagement with PTAs can be broadly classified into two phases. The *first phase* right after independence entails the formation of PTAs as a result of various political considerations and prevailing international architecture. Agreements that were formed in this regard include the India-Bhutan treaty (1949), India-Nepal friendship treaty (1950) and the Bangkok agreement (1975). The *second phase* saw the emergence of economic issues during the process of consultation. It was only during the third round of SAARC preferential trade agreement (SAPTA) that these issues were included.

India's first FTA, the India-Sri Lanka FTA (ISLFTA) signed in December 1998, has its origins in geopolitical factors as much in economic. Another important agreement is the Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation (BIMSTEC) which came about along the same line as the earlier mentioned one. It came as an important element in India's "Look East" policy and was signed in February 2004.[4] The India-Thailand FTA (2003), the India-MERCOSUR PTA (2004), India-Singapore CECA (2005) are the major arrangements which followed with economic prospects in the forefront. Since 2005, a number of proposals for trade agreements with non-traditional markets like Israel, several Central Asian and African countries, etc. were mooted. An on-going negotiation with EU is one of the most ambitious initiatives amongst these new proposals. One of the major achievements during this period is the long and hard-drawn FTA with ASEAN signed in 2009, the latest being a CECA with Malaysia signed in February 2011.

The history of India's negotiation of FTAs reveals that apart from the upturn in stakeholder involvement in the formulation of such agreements, there have been developments along other lines. Most notably, prioritization of economic benefits through FTAs by setting specific targets as well as efforts to strike a balance between economic as well as non-economic objectives shows the increasing level of maturity the country shows in its trade negotiations.

India's PTAs: Acceleration *vs.* Multitasking

There are a number of factors that contribute to the appeal of PTAs: Relative ease of negotiations with smaller membership compared to the multilateral system; the motive of advancing trade policy reforms in stages; quicker way to increasing market size; and a means to signal openness to foreign investors, etc. The number of PTAs was negligible in the early 1990s, around 20; by 2005 they had increased to 300 and now they are almost double of that.[5] The surge in the number of PTAs is because of any of these above said reasons. Some point out that this increase in number of PTAs is due to the increase seen in the intra-regional trade between members of PTAs. Governments may sign PTAs to lock-in its trade policy reforms and to weaken the chances of reversal of trade liberalization policies at the national level. Relative ease of negotiations also means that deeper levels of trade liberalization, beyond mere tariff reduction in goods, may be more quickly achieved and hence PTAs are preferred to pursue the goals of cross-border investments and trade in services as well.

With falling GDP growth rates all around the world and India being one among the few maintaining a growth rate of above 5 per cent, the country possesses the advantage of being an attractive suitor for trade talks for rest of the world. The size of its population and rise in per capita income has made it a desirable market. India represents the fastest growing import or export partner (or both) between 2013-15 or 2016-2020 for 23 markets.[6] India's trade growth is often linked with its growing consumer wealth and emerging middle class, investment in infrastructure development, the impact of Foreign Direct Investment (FDI), its diverse range of exports and a move to produce goods higher up the value chain, and its developing role as a supply chain hub for

Asia.[7] All these factors put together give India more bargaining power in trade negotiations. Given that India is well positioned as a desired partner, there exists immense opportunities for India to aggressively pursue its trade ambitions through PTAs. From emerging patterns, it is evident that India is indeed exploring this opportunity to the extent possible. Joint FTA feasibility studies commissioned by India with new partner countries such as Australia and New Zealand as well as blocs such as Russia, Kazakhstan, Belarus Customs Union, indicates that exploring new preferential trade partners is of high priority. Also initiatives to deepen existing FTAs to CECAs such as India-ASEAN FTA, show that India is looking to accelerate trade growth through preferential negotiations. Although the growing number of agreements gives ample opportunities for India to explore and benefit from PTAs, the downside of it is that the country will have to put a considerable amount of time and resources while negotiating these multiple trade agreements.

The more India engages in simultaneous negotiations with multiple partners the more it puts pressure on its limited negotiating capital. The strain on trade governance systems that multi-level trade negotiations with multiple partners creates sometimes threaten to degrade the quality of the outcomes. For instance, the longstanding FTA negotiations with the EU, considered as one of the most important FTA prospect for India that is yet to be concluded, is often found to have suffered from inadequate focus and attention. At present, there are 21 trade negotiations under way according to the Commerce Ministry, with so many negotiations taking place at the same time, the negotiations might take considerably more time to conclude. With each of the negotiations involving one or more countries with different types of trade relations, the strategy used for each one of the negotiations should be different and well focused on the specific needs. Given that there are so many PTAs, a country might find it difficult to carry out a cost benefit analysis of each PTA and such agreements might end up being harmful to the economy in the long run by importing more than what it used to previously and therefore increasing the trade deficit. An assessment of the existing PTAs shows that India needs to negotiate better deals for itself.[8] The biggest challenge for India in managing its own PTA negotiations is to sustain the pace and maintain the focus.

External PTAs: Dealing with Exogenous Changes

Regionalism has registered a phenomenal growth worldwide. The number of PTAs/RTAs notified in the WTO has reached 575 as on July 2013.[9] Over the last two decades, the number of PTAs/RTAs has increased more than fourfold.[10] This proliferation means that India has to face the challenges associated with exclusion from external PTAs. The principal school of thought on effects of external trade agreements on an excluded country is that of trade diversion. Under this concept, the possibility of displacement of exports from an excluded country by exports from signatories in a trade agreement (owing to import preferences granted through that trade agreement) is treated as the likely negative influence of external trade agreement on the excluded country under consideration. Not only does PTAs divert trade from the excluded countries but also have much broader implications like diversion of economic opportunities.

Since 2006 India's trade with its co-signatories in PTAs/RTAs grew by only two per cent to reach 39 per cent of the country's total trade in 2011-12.[11] Besides this compounding worries of receding export opportunities in its traditional export destinations which is due to ever increasing competitive pressure, India's negative trade balance has grown at an alarming rate in the last few years, raising concerns on the effectiveness of India's trade negotiation strategies.

Given that PTAs are not mere agreements on liberalizing trade in goods and that they include services, investments, intellectual property, technical barriers to trade, competition rules, government procurement, environmental and labour standards, etc. the effect on an excluded country will be much broader. The preferences that member countries enjoy are also substantially more in these agreements. In this regard, some of the most important external agreements that are being negotiated, from the point of significance for the Indian economy are the EU-ASEAN FTA, the trans pacific partnership agreement (TPP), and the trans-Atlantic trade and investment partnership agreement (TTIP). These agreements if concluded will forge a much deeper relationship between the largest economies of the world (Australia, Canada, Indonesia, US, EU, ASEAN, etc.). These agreements are in particular more damaging for the Indian economy as these economies represent a large portion of India's trade. EU accounts for around 16 per cent of India's total exports and 11 per cent of India's total imports and the US accounts for 12.8 and 4.9 per cent respectively.

The effect of an external PTA can also fall upon the import of the country. Due to the external agreements, prices of imports may rise as such imports might get diverted to new markets where the profit margin becomes higher. Tariff preferences given to each other by co-signatories in a PTA will make exports to PTA partners more profitable and thereby may deflect exports from the PTA region to excluded countries. If excluded countries are critically import dependent for certain products on one or more of the PTA partners, deflection or diversion of trade in such products to intra-PTA region would result in serious loss of consumer welfare in excluded countries, in the form of rise in import prices.

Time has come for India to realize that attempts to explore new markets in regions like Central Asia and Eastern Europe through plurilateral trade negotiations, as has been the thrust in the recent past, would not suffice by themselves in the coming years. It is also extremely important to understand the market erosion effects of external trade agreements on India, especially with respect to its main traditional markets, and make preparations for facing such challenges so that its existing international trade and commercial ties do not subside.

Another threat emerges from the fact that engagement of India's trading partners in external PTAs has the potential to rip off the exclusivity of preferences once enjoyed by India. Foregoing the full benefits of tariff preferences in such faction would be highly unfortunate considering that they are earned through costly investments in negotiation processes. However, though exclusion owing to external PTAs and ensuing market losses are a threat in the short run, receding trade barriers in other countries owing to external PTAs would create new opportunities for India in the long run. This is because the openness in trade policy outlook, changes in trade practices, improvements in trade infrastructure, etc. that PTAs would generate will make negotiations in future easier to handle. Many commentators cite this argument to validate the notion that PTAs would eventually become building blocks of multilateralism.

An advantage that can be seen in an external PTA/RTA is that an excluded country can in future negotiate an agreement with the existing PTA/RTA to gain market access to the whole region with one negotiation process as opposed to negotiating with individual countries. For example, India-ASEAN FTA gives India access to the whole of ASEAN region, this helps to reduce the time and resources that a country otherwise would have incurred in accessing a market the size of ASEAN which has 10 countries in it.

Future Strategies

Preferential trade agreements have proliferated in the recent past and this trend is likely to continue in the near future. If the increasing dependency on PTAs worldwide is any indication that such agreements are a catalyst for progress, India cannot afford to neglect the global trend. Mutual dependency is both a necessity and a reality of today's world. Time has also come to acknowledge the positive spin off from PTAs in the form of peaceful political relations at a time when divisiveness looms large as the most potent threat to global prosperity. At this juncture, the question facing emerging global leaders like India is not whether to pursue an FTA agenda, but how best to capitalize the opportunities thrown up by preferential trading arrangement.

Given that countries like India have limited negotiating capital and would benefit if more research on the cost and benefit of PTAs are done, the country needs to involve representatives from all the stakeholders while doing the analysis. This would ensure more negotiating capital, expertise, etc as well as increase awareness of the local industry. While negotiations should always look for benefits they should not be short sighted. As far as the external PTAs are concerned, there are at least three proposed agreements that are significant to India, the emerging scenario necessitates, a thorough ex-ante analysis of the implications for the Indian economy as a result of these agreements and arrive at a policy direction that would help India to mitigate and adapt to substantial changes that are underway in its external economic environment.

As discussed earlier, the Indian economy is one among the fastest growing economies in the world. It provides large opportunities to potential foreign investors. India needs to deregulate many of its sectors to let FDIs come in. Investments would have a positive effect on the economy and the effects would be quicker than trade liberalization. Using FDI as an important source of economic growth and develop-ment, the country could negotiate for better preferences in trade agreements while also increasing competency in the existing industry with the new investment.

A majority of PTAs are concerned with trade in goods while excluding services, investment flows and cooperation. In India, services have become one of the fastest and the largest contributors to GDP; it contributes around 55 per cent of India's GDP and 35 per cent to employment. India holds a competitive edge in this sector but services have not been included in most trade negotiations and hence has not been used to its full potential. This sector can be pushed forward during negotiations if India allows FDI inflows in other sectors where the country needs investments. This could be a win-win situation for both countries. Negotiations on services have always been difficult and at present services have been included only in India-Singapore CECA, India-Korea CEPA, India-Japan CEPA, India-Malaysia CECA and India-Thailand FTA.

A particular region that the country has neglected is its immediate neighbours, more specifically the SAARC countries. It is one of the most populated regions with lowest intra regional trade. India being one of the largest economies in South Asia, can play an important role in lowering trade barriers in this region. It is to be noted that due to South Asian Free Trade Area and other bilateral PTAs the tariff barriers in this region are low, but due to the existence of non-tariff barriers intra regional trade has been limited. It would be highly beneficial for all the SAARC nations if they address the issue of non-tariff barriers and improve trade facilitation infrastructure between these countries. The biggest hurdle that impedes this development is the relationship between India and Pakistan – the largest economies in the region. If trade between these two countries improve the rest would be easier to negotiate. Pakistan is yet to give India most favoured nation status. Pakistan fears that its industrial base will be affected if it opens trade with India, but evidence from similar countries show trade openness only helps the country positively in the long run.

India needs to be more aggressive in negotiating with other countries. Recent studies[12] show that India has not gained much from its preferential trade agreements. An assessment of the existing PTAs and renewing the agreements where it is needed is necessary as countries and trade baskets change with time. The country needs to engage better, optimizing its negotiating resources by prioritizing between various options. This needs thorough cost benefit analysis of enhanced trade engagements with various partners. While many parallel negotiations take place, the most important ones should be allocated adequate resources. Pacts that are negotiated must be done by keeping in view economic gains at the forefront, while long-term economic and social effects of these agreements must be the basis of the negotiations.

ENDNOTES

1 PTA in this article is also used to represent other forms of trade and economic agreements including Free Trade Agreements (FTAs), Comprehensive Economic Cooperation Agreements (CECA) and Comprehensive Economic

Partnership Agreement (CEPA). The other forms are considered as PTAs which are deeper in scope and coverage.

[2] International Trade, Trade Agreements, Ministry of Commerce and Industry.

[3] See "Global Value Chains and Development – Investment and Value Added Trade in The Global Economy" , UNCTAD (2013).

[4] It marked the first instance of involvement of academia, business and Government in the Group of Experts laying out the contours of the negotiation and the Framework Agreement itself. See, "Free Trade Agreements and India", Bipul Chatterjee and Joseph George, *Yojana*, February, 2012.

[5] See "why do countries sing RTAs?", Manoj Pant, *The Economic Times* (2010).

[6] Global Connections, HSBC Trade Forecast, June 2012.

[7] See "India Set to be Fastest Growing Trade Market in the World", *The Indian Express*, 4 December 2012.

[8] "India Needs a Better Deal from Trade Pacts", Bipul Chatterjee and P.C. Jena, *Business Standard*, 7 March 2013.

[9] RTA database, World Trade Organization (2013).

[10] "The WTO and Preferential Trade Agreements: From Coexistence to Coherence", *World Trade Report (2011)*, World Trade Organization, Geneva.

[11] "India Needs a Better Deal from Trade Pacts", Bipul Chatterjee and P.C. Jena, *Business Standard*, 7 March 2013.

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NEWS (NATIONAL/INTERNATIONAL)

PM to Embark on Four-day Visit to Brunei, Indonesia

PRIME MINISTER Manmohan Singh will begin tomorrow a four-day visit to Brunei and Indonesia, as India eyes greater economic ties and cooperation in areas of security, connectivity and culture with South-East Asian countries.

Dr. Singh will attend ASEAN-India Summit, as also the East Asia Summit on 10 October in Brunei Darussalem, before leaving on a bilateral visit to Indonesia, where he will be accompanied by External Affairs Minister Salman Khurshid and Commerce & Industry Minister Anand Sharma.

The visit assumes significance as India is looking to ink a Free Trade Agreement (FTA) on services and investments by the end of 2013 with ASEAN (Association of South East Asian Nations), a ten-member bloc of countries like Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

An FTA on goods is already in place between India and ASEAN and it has significantly helped expand the trade with this regional bloc. The ASEAN-India trade currently stands at US$76 billion, which is targeted to be increased to US$100 billion by 2015 and to US$200 billion by 2022.

The areas of cooperation between India and ASEAN range across sectors like science & technology, agriculture, environment, human resources, space, energy, telecom, infrastructure, tourism, culture, health and pharmaceuticals.

During the East Asia Summit, a forum for international cooperation among ASEAN countries and Australia, China, India, Japan, Republic of Korea, New Zealand, Russia and the US, a formal inter-governmental agreement is expected to be signed on the ambitious Nalanda University in Bihar.

The University, set to come up 12 kms from the Nalanda ruins, may start its first academic session from 2014.

(*Business Standard*, 8 October 2013)

India Exploring Possibilities of Ftas with Emerging Markets

THE government recently said it was exploring possibilities of Free Trade Agreements (FTAs) with new emerging nations and strengthen its presence in conventional markets such as the US and Europe.

"There is a need to review the FTAs with other nations as a measure to assess their impact on our own country's trade. The basic objective would be to analyze if there are any hurdles faced by the exporters and determine the inputs required to further the growth of trade," Minister of State for Commerce & Industry D. Purandeswari said.

She was speaking at an award function for EOUs (export-oriented units) and SEZ (special economic zone) units organized by the Export Promotion Council.

The Minister feels that the review exercise will help in negotiating with some of the emerging markets.

"This is only to emphasize the need to strengthen our presence in conventional markets such as the US and Europe, and to find for ourselves new markets in the difficult global economic scenario," Smt. Purandeswari said.

Besides, she said, the long-term vision of the ministry is to make efforts to make India a global player in the world trade by 2020. After slowdown in western markets, the government is exploring possibilities to engage more with emerging countries to boost the country's trade.

India has so far implemented free trade pacts with countries like Singapore, Korea, Japan, Malaysia and ASEAN. The country is negotiating similar pacts with several nations including Australia, Canada, European Union and New Zealand.

Talking about problems faced by Special Economic Zones (SEZs), Smt. Purandeswari said, "The ministry is aware of the challenges including imposition of Minimum Alternate Tax (MAT) on SEZs and ineffective functioning of the single-window clearance."

"...The policymakers need to be receptive and it is time for us to work together to ensure that there is a smooth and conducive environment for our SEZs and EOUs so that they can do their best," she said.

So far, the government has formally approved 576 such zones and notified 392 units. Of the 173 operational zones, the maximum 39 are present in Andhra Pradesh, followed by Tamil Nadu (33), Karnataka (22), Maharashtra (20) and Gujarat (18).

Joint Secretary in the Ministry of Commerce Rajeev Arora said: "We have tremendous scope within the SEZs which are in the pipeline (by converting the notified SEZs into functional ones)."

"We want to see that the non-serious players do not stay in the line as we are not interested in giving them many lifelines...," he said.

During 2012-13, exports from SEZs grew by about 31 per cent year-on-year to ₹4.76 lakh crore. Shipments from these zones stood at ₹3.65 lakh crore in the previous fiscal.

India's overall exports rose 12.97 per cent to US$26.14 billion for the second straight month in August, while imports declined 0.68 per cent to US$37.05 billion.

(*Business Standard*, 30 September 2013)

FTAs Must Cover Services Sector: GOI

WITH India's total trade (including imports and exports) contributing to nearly 50 per cent of India's GDP, around $900 billion to $1 trillion in a $1.8 trillion economy, there's a need to focus on the value of foreign trade. This was necessary as a large importance was being given to the domestic market and exports have been taking a back seat.

Free Trade Agreements (FTA), as an Indian trade policy, has been rather late in a global context and the country needs to catch up with the rest of the world, A.K. Tripathy, Joint Secretary, Ministry of Commerce & Industry, Government of India, said in Bangalore.

Meanwhile, Shri Tripathy said the Centre is engaged with the RBI to include export sector under the priority sector lending of banks, a move that will help exporters get easy and affordable credit. He added that a senior Commerce Ministry official said that credit is expensive in India.

"Commerce Ministry has been successful to take the Finance Ministry on board to engage with RBI to work out a package for the export sector, that export sector lending should be a priority sector," Shri Tripathy said.

Indian exporters have been demanding inclusion of export credit in priority sector lending. "If this materializes it will be a big game changer for the export industry," he said.

Hence, he added that FTA in India needed to go beyond just the goods trade and extend to the services sector as well, and FTA was also one of the best ways to bring down the trade barriers.

He said, there were huge opportunities in the ASEAN region and added, India needs to make inroads into the region and overcome the existing trade barriers. He said that despite the 'Look East Policy' that was in existence over the last two decades India's trade was still focused largely on the West. He called on trade bodies to do more research in order to capitalize on the ASEAN region.

Meanwhile, Sandeep Maini, Vice-Chairman, CII Karnataka State Council, and Director, Maini

Precision Products Pvt Ltd, expressed his reservation that the Indian industry not exploiting the full potential of FTAs. He added that FTA was one of the best ways to reduce the trade barrier. He said India was aggressively expanding its trade through FTAs and with the exception of the US and China, India has engaged all major trade blocks with respect to FTA. According to Shri Maini there was tremendous potential for India *vis-a-vis* FTA.

According to M.S. Srikar, Director, Ministry of Commerce & Industry, "With the services sector gaining enormous importance in the Indian economy over the last few years, it has become a major force of the economy, and hence, the services sector contributes around 56 per cent to the GDP." Surplus on account of India's services exports has been a cushioning factor for financing a large part of the merchandise trade deficit in recent years, he added.

(*Business Standard*, 5 September, 2013)

India says No to Labour, Environment in FTA with New Zealand

THE negotiations for free trade agreement between India and New Zealand have hit a major roadblock during the latest round as New Delhi has declined to include other side's demand pertaining to labour, environment and government procurement in the pact.

In the recently concluded ninth round of negotiations for the FTA in Wellington, New Zealand had expressed desire to include provisions relating to trade in labour and environment, besides intellectual property, government procurement and competition policy, in the pact.

"India noted that they did not have a mandate to include these issues, so they would not be able to record them in the FTA," a senior commerce ministry official told PTI.

The negotiations for the pact, officially dubbed as Comprehensive Economic Cooperation Agreement, started in 2010.

Both the sides have expressed hope to conclude the talks for the agreement this year.

India strongly opposes inclusion of such issues in any kind of bilateral trade arrangements. It has also refused to include these in its proposed free trade pact with EU.

An international trade expert said labour and environment are social issues and they cannot be included in FTAs.

"These are social issues and not exactly trade issues. That is why India is opposing. We can discuss these at different foras," T.S. Vishwanath, principal adviser at APJ-SLG Law Offices, said.

The broad-based free trade agreement proposes to cover goods, services and investment.

The bilateral trade between the countries was a meagre $998.68 million in 2012-13. It was $1.07 billion in the previous fiscal.

The FTA is important for India as it hopes to get more work visas for its professionals especially teachers, healthcare providers, technicians, IT experts, architects and hospitality providers in New Zealand.

New Zealand wants access to Indian markets for its agri products like apple, kiwi, dairy and also for wine.

New Zealand has already expressed concerns over India's tariffs on imported items like butter, milk and wine from that nation. They have said that India's duties are very high.

India has not yet given any significant concession in dairy to any of its other FTA partners including Singapore, Japan, South Korea and the ASEAN.

Further, the official said that both the sides have made substantial progress in areas like Technical Barriers to Trade (TBT) and sanitary and phytosanitary measures (dealing with basic rules for food safety and animal and plant health standards).

An agreement on TBT will ensure that matters like technical regulations, standards, testing and certification would not create unnecessary problems to trade.

(*Business Standard*, 19 August 2013)

MEA Asks Commerce Ministry to Review FTAs, Delay Talks

THE Ministry of External Affairs (MEA) had asked the Ministry of Commerce & Industry to review some of the key free trade agreements (FTAs) that India signed with Singapore, Japan, South Korea and the Association of Southeast Asian Nations (ASEAN), sources said, as India had failed to achieve the main objective of leveraging the services sector.

The MEA has also urged the Commerce Ministry to slow the pace of its negotiations for similar deals with Thailand, New Zealand and Canada, among others.

Ironically, it was the MEA which had spearheaded the signing of FTAs in an effort to promote economic diplomacy. India signed a number of agreements after talks for a global trade deal under the Doha Round failed to make any headway. Also, India had always been keen to gain greater market access for its professionals in the services sectors of various countries. This is because with India's stagnating manufacturing sector, it was not able to gain competitiveness in the export of high-end products.

However, in an effort to get more access under services trade in terms of greater movement of professionals such as doctors, nurses, accountants and teachers, India has received some "odd demands from other countries," according to a senior MEA official. For example, under the proposed FTA with Thailand, it has demanded the opening of massage parlours and spas here because that is the country's main revenue earner. This has turned out to be one of the main stumbling blocks in the negotiations.

India had been in talks with Thailand to have an FTA since 2004, when both sides launched the "Early Harvest Scheme" under which they have already abolished duties on 82 items.

On the other hand, the FTA route has also not helped India in augmenting its exports. Ironically, it is having large trade deficits with countries with which it has such agreements.

In 2011, India's trade in goods with its FTA partners was about 39 per cent of its total trade. This figure has not registered much change since 2006, according to CUTS – a Jaipur based think tank.

India is running a huge trade deficit with Japan even though both have signed a comprehensive economic partnership agreement (CEPA).

India's trade deficit with Japan was $3.6 billion in 2010-11 before the CEPA was implemented and it almost doubled in 2012-13 to $6.3 billion. Its exports to Japan in 2012-13 were $6.26 billion compared with imports of $12.50 billion.

In 2012-13, the country's total exports stood at $300.60 billion, down 1.76 per cent from 2011-12. The FTAs did not prove to be helpful in arresting the fall in exports with a slowdown of demand globally and the government was forced to revise the export target for this financial year to $350 billion from $500 billion earlier. India is currently negotiating bilateral trade deals with the European Union, Canada, Israel, Australia, New Zealand, Africa and Chile.

(*Business Standard*, 14 August 2013)

Parliament Holds the Key to Unlock India-EU FTA Talks

ALLOWING more FDI in the insurance sector has been one of the foremost demands of EU under the free trade talks that started in 2007 as it wants India to open up its banking and insurance sector. But India, on the other hand, had been skeptic about this due to the ongoing financial recession there and the large-scale regulatory issues that plague EU's banking system.

This is also the main reason why the scheduled meeting between Commerce & Industry Minister Anand Sharma and EU Trade Commissioner Karel de Gucht, which was supposed to take place in June to close the talks have not yet happened, a senior Commerce Department official observed. The ministers last met in April and it was decided that they will next meet in June.

Interestingly, the official said, even if the Parliament gives its nod to increase the FDI limit to 49 per cent, "it does not mean that it gets automatically committed to the EU. We will take a view at that time whether we will commit whole of it or partially."

For example, if a certain European company wants to invest in India's insurance sector within the 49 per cent cap, the government will protect only that much amount under the agreement on which the deal will be agreed upon.

"After Parliament accepts 49 per cent, it will be on Commerce Department to decide whether we would like to commit whole of it. We have to now find a balance. We will not give them what they want if we are not able to get what we want," the official added.

Germany is one of the main countries in EU that is demanding liberalization of the banking and insurance sector. The issue was strongly put forward by Chancellor Angela Merkel during Prime Minister Manmohan Singh's visit to Berlin in April.

It is learnt that recently Commerce Secretary S.R. Rao visited Brussels where discussions concerning the main problem areas of the FTA talks were discussed. In May the meeting between chief negotiators from both sides also remained inconclusive.

The decision to allow 49 per cent FDI in the insurance sector was approved by the Cabinet in October last year. However, this can be implemented only when Parliament gives the green signal.

Once concluded the proposed trade deal would cover more than 95 per cent of tariff lines and encompass a market of over 1.7 billion people.

(*Business Standard*, 9 July 2013)

Fading Trade Timelines

THE timelines for a possible India-Europe bilateral trade and investment agreement are getting tight with both sides supposedly failing to close the deal on some critical issues. While this could risk hurting several years of negotiations that have been undertaken by both sides, it is also important to note that the final deal should be based on a clear win-win for both partners.

First, it is important to note that an agreement can be beneficial for both sides if it is balanced and addresses the sensitivities that have been highlighted by the two partners. But time is of essence and the 28-nation European Union (EU) and India should now look at arriving at a consensus on issues by the end of July, if an agreement has to be signed. Once the negotiators finish their negotiations the two sides may require some time to complete the legal document and then clearances would be needed which could take time. The EU would take longer to get clearances, as its processes take more time. A delay in completing the negotiations soon could possibly mean that an agreement, if at all, would be put off by about a year or two.

The year-long hiatus would be prompted by the fact that elections in India are expected to be held in the middle of next year and by the time a new government takes charge it would be time for the current European Commission to pack up. Therefore, negotiations can begin again, if at all, only in early 2015.

The EU is India's largest trade partner and a trade deal can be beneficial for both sides. Negotiators surely know this. But what seems to be holding back the deal is the level of ambition that some sectors are hoping to achieve.

An important area of divergence seems to be in the auto sector. Various reports seem to suggest that the EU is keen on getting a zero-duty offer from India in this sector. Certainly, that does not seem achievable. But then it is important to recognize that the stand taken by the Indian auto sector also provides no flexibility to our negotiators. The EU will need to realize that even a slight opening, if achieved, can be a good starting point for future discussions.

Given the current state of play, some sectors in India need to take a more proactive role if they wish to see a conclusion to a bilateral free trade agreement (FTA). Some of the obvious gainers in India from such a deal include the information technology sector and the textiles and clothing sector. Interestingly, one does not see much of a public stand by either of these sectors in advocating an early conclusion towards a deal.

The current deadlock, therefore, provides us with some pointers to help make such trade agreements far more effective and worthwhile for the government and the industry.

First, the industry needs to play a far more proactive role during such negotiations. This is especially for sectors, that stand to gain from FTAs. Their role should not be limited to back-room lobbying but a more public positioning of their support for a deal. This will help build public opinion in favour of FTAs.

As of now, public positioning by the industry for an agreement is more focussed on the negative impact rather than about the opportunities that such deals would provide. This vitiates the environment for any FTA.

Second, the industry needs to start track two with counterparts in the other country/countries, as soon as official negotiations begin to ensure that the feedback to negotiators is based on a better understanding of the industry position on the other side.

Third, the industry should desist from adopting a "one-size-fits-all" approach with all trade partners. This seems to be a case in some sectors, that have taken a defensive view for nearly all the FTA negotiations.

Fourth, foreign investors in India need to play a more active role in providing inputs to the government when such negotiations take place. Such FTAs can help develop global value chains and multinational companies in India that have not advocated such a view, as yet. Taking this thought forward, Indian companies, too, should look at these agreements as stepping stones to build value chains across countries.

(*Business Standard*, 3 July 2013)

Pushing the Wrong Way

SINCE 2007, India and the European Union have agreed in principle that they should sign a free trade agreement (FTA). Naturally, this has only gained in importance over the years. For one, the Doha Round of multilateral trade talks appears to be difficult to revive; its place has been taken by free trade between trading blocs. India cannot afford to be left out of this burgeoning set of international free-trade networks. *Second*, in the intervening period, China has lost the cost advantage it had in its exports, especially in price-sensitive sectors like textiles, also a focus for Indian exporters. Meanwhile, weak world demand means that export-intensive sectors in India have seen revenues collapse, leaving many out of work, and shutting down workshops. Taken together, this means that the FTA between India and Europe should have been a priority. However, the government has allowed itself to be browbeaten by industry groups and activists into delaying the process. The Commerce Secretary admitted that the "gap" to be bridged in negotiations was infinitesimally small - but said that it was proving difficult to get to agreement anyway. Unfortunately, the Indian side is wedded to a zero-sum-game idea of trade negotiations - always fearing that India will "lose" too much. That is not how free trade works. Unfortunately, this also means that various lobbies, such as automobile manufacturers, can hide behind a patriotic insistence that no "concessions" be on offer to foreigners and scuttle a much-needed trade pact.

One of the major remaining problems in the way of a free trade agreement is that India is still unable to open up its insurance sector to foreign investment. This is, of course, in India's interest as much as it is in Europe's; it is to be hoped that the government's renewed focus on foreign direct investment will cause this problem to go away. The Opposition should not be allowed to mindlessly block this reform, especially since the Bharatiya Janata Party introduced it in the first place. Europe's demand that wine and liquor not be subjected to extortionate tariffs is also reasonable; there is no reason why the Indian wine sector, not noted for its quality, should be protected. India's objections are less reasonable. On the one hand, India insists that it be certified as a data-secure destination, to facilitate market access for its software companies. But the fact is that this certification has to be carried out independent of trade negotiations - that is, in fact, only logical. Insistence on this point by India should not derail negotiations. And complaints from the automobile sector that European luxury cars should continue to be subject to higher tariffs should be summarily ignored. The Indian automobile sector, thanks to protection, has focused on serving the upper end of the market rather than using its cost advantage smartly. It is in the interest of Indian consumers and producers that this distortion of the market is ended.

Thus, even without further concessions from the European Union, India must sign the free trade agreement swiftly. If it does not do so with dispatch, it will get locked out of trade just when it is needed the most. The last bilateral meeting was a failure thanks to the Commerce Ministry's obstructive attitude. The ministry must change its attitude, or be made to do so by the Prime Minister.

(*Business Standard*, 19 June 2013)

India, Thailand Set to End FTA Suspense by October

IN a major breakthrough, India and Thailand agreed to conclude negotiations on a comprehensive free trade agreement soon. The two countries also clinched an extradition treaty and signed a cooperation agreement on anti-money laundering.

While the joint statement issued after discussions between Prime Minister Manmohan Singh and his Thai counterpart Yingluck Shinawatra did not give a timeframe by when the FTA will be signed, Ashok Kanth, Secretary (East), said it was expected as early as possible. The two leaders have asked their Commerce Ministers to take "personal charge and show the required flexibility" of the FTA to make this possible, Shri Kanth added.

The FTA has been under negotiations for nearly a decade now and it has taken 27 rounds of meetings to iron out the rough spots. Trade and investment relations between the two countries have improved significantly after the two concluded the framework agreement on FTA in 2003. An early harvest scheme of the FTA, with tariff exemption for 84 products, came into force as early as 2004.

Over the past five years, trade between the two countries has been increasing at more than 15 per cent per annum. Last year, it crossed $9.2 billion – exactly half the volume of Indo-Japan trade volume.

Dr. Singh, who came to Thailand for the first time on a bilateral visit (the earlier trips were for multilateral events only), said the FTA was necessary as both countries were planning massive investments in infrastructure over the next five years.

There were at least a couple of big initiatives on the connectivity front. First, India will explore cooperation on the Dawei special economic zone in Myanmar, which is expected to emerge as a major regional logistic hub and open shorter and quicker sea route to Indian ports in Chennai, Visakhapatnam and Kolkata. The project will also open business opportunities for the region and Indian infrastructure companies are interested in participating in its development.

Second, a plan to have a physical link between Thailand and India via Myanmar is also being implemented with a trilateral highway project as it would enhance the connectivity between the Mekong sub-region and India. India's contribution will be in the northeastern states and helping Myanmar to build and upgrade roads and bridges inside that country, while Thailand will do its part to link to the Myanmar port. The project is expected to be completed by 2016. The two Prime Ministers also welcomed establishment of a Thailand-India Business Forum to expand the role of the private sector in business partnerships. The two sides also agreed to provide fast-track business visa service.

The statement said there was a need for an institutional arrangement on the social security benefits of the workers in each other's countries, which will facilitate labour mobility. An agreement to this effect is expected soon. The two sides also agreed to strengthen maritime and defence relations, including through exchanges, exercises and joint patrolling. Besides, the two countries will explore industry collaboration in the defence space. More joint initiatives will be taken in areas such as science and technology, space science, education, culture and people-to-people exchanges.

(Business Standard, 31 May 2013)

China Willing to Launch FTA Talks with India: Keqiang

CHINESE Premier Li Keqiang recently offered Indian goods more access to his country's market for narrowing bilateral trade deficit and expressed willingness to start talks for a free trade agreement with India.

"We also understand India's concerns of trade deficit. China is also willing to provide facilitation to India's products to access Chinese markets.

(Contd. on p. 32)

BOOKS/ARTICLES NOTES

BOOKS

Trading Blocs: Alternative Approaches to Analyzing Preferential Trade Agreements by Jagdish Bhagwati and others (eds.), London: The MIT Press, 1999.

THE recent proliferation of free trade areas and Customs Unions in the world trading system has led to an explosive revival of interest in the economic analysis of Preferential Trade Arrangements (PTAs). The principal theoretical question of the 1950s and 1960s was whether PTAs would create or divert trade, causing welfare improvement or loss. The principal theoretical question (Bhagwati) of the late 1980s and 1990s has been whether PTAs encourage or discourage the worldwide non-discriminatory freeing of trade. The essays in this volume present the central contributions to the analytical approaches developed to examine these questions.

Regional Integration by El-Agraa and M. Ali, London: Macmillan Press Ltd., 1999.

THE book provides a comprehensive and critical analysis of both the theoretical and empirical literature in international economic integration intially inspired by the creation of the European Coal and Steel Community in 1951 and enhanced since the 1960s through the prolifiration of regional integration schemes. The focus is on the pure theoretical and technical empirical work in the field, covering all the developments in abstract modelling and measurement techniques. In assessing regional integration, the book addresses the issues of customs unions versus free trade areas, customs versus unilateral tariff reduction, regional integration and multilateralism, and estimating the benefits of integrated markets.

WTO and Reciprocal Preferential Trading Agreements by Caroline Freund (ed.) Cheltenham: An Elgar Reference Collection, 2007.

THE importance of the Global Trading System and the WTO to international trade and investment continues to increase and remains at the forefront of discussion on global trade relations. This authoritative series presents by theme a comprehensive assessment of the impact of the Global Trading System and the WTO on areas such as the environment, property rights, poverty and income distribution and employment conditions. The volumes have been prepared by distinguished specialists who have selected key published papers offering a range of viewpoints, both supportive and critical, on the impact of the Global Trading System and the WTO. Each editor has also written an original introducti on to the literature. This timely series will be of immense interest to all scholars of international economics and relations as well as international trade lawyers, practioners and policymakers.

Regional Trade Agreements in Asia by Tran Van Hoa and Charles Harvie (eds.), Cheltenham: Edward, Elgar, 2008.

THE authors present this timely and original study of the likely effects of new regional development. The first East Asia Summit in 2005 prompted discussions of enlargement of ASEAN free trade agreements to include all major trading blocs and their likely regional and global implications. The contributors to this book, internationally renowned experts from ASEAN, East Asia, India and Oceania, analyze the probable impacts of this expansion on trade, investment, development, poverty and economic growth and integration.

Free Trade Agreements in Southeast Asia, by Rahul Sen, Singapore: ISEAS, 2004.

REGIONAL trading agreements (RTAs) (also known as prefrential trade agreements or PTAs) became an instrument to foster regionalism. The simplest varient became known as the free trade agreements (FTAs), given the freedom that such agreements provided to its member countries in terms of pursuing their trade policy *vis-a-vis* non-members. According to the WTO, the earliest FTA that came into force was in 1960 with the establishment of the European Free Trade Association (FTA) through the Stockholm Convention. Thereafter, most of the FTAs that proliferated during the next three decades involved European countries and North America, with the US-Isreal FTA being signed in 1985. One of the most important FTAs that came into force thereafter in 1994 was the North American Free Trade Agreement (NAFTA), which involved the United States, Canada, and Mexico. In the context of Southeast Asia, the only FTA that was established during this period was the ASEAN Free Trade Area (AFTA) which has since come into force for all but the four new members (i.e, Cambodia, Laos, Myanmar, and Vietnam) from 2003.

Reinventing ASEAN edited by Simon S.C. Tay and others (eds.), Singapore: Institute of Southeast Asian Studies, 2001.

THE book Reinventing ASEAN brings together contributions by some of the leading and well-established experts on ASEAN. It focuses primarily on the political-security and economic dimensions of ASEAN cooperation. In so doing, the authors have all treated the scope of their topics broadly. The idea of politics and security in ASEAN has been considered from many different aspects, under the rubric of "comprehensive" security or, to use a more recent term, "human" security. The consideration of economics is also rounded, and includes issues of development, as well as the political context for economic cooperation. Additionally, ASEAN's processes and institutions, or what has been called the "ASEAN way" are also studied. After all, cooperation between nation-states does not only encompass what the members are trying to achieve together, but also the rules of how they are to work together. Thus, other areas for ASEAN cooperation, such as financial matters and environmental protection, are also considered among the larger issues.

Trade Liberalization and APEC by Jiro Okamoto (ed.), London: Routledge, 2004.

TRADE liberalization in the region has been one of the main objectives of APEC since its establishment. In the early stages, nevertheless, it did not have any concrete measures of goals. Rather, APEC members' will for regional trade liberalization was used as a lever to encourage the promotion of the Uruguay Round. It was around the same period as the conclusion of the Uruguay Round (December 1993) that APEC turned more substantively to regional trade liberalization. This book analyzes the attempted trade liberalization under the framework by conducting case studies and policy issues of such members.

Regionalism, Trade and Economic Development in the Asia-Pacific Region by M.A.B. Siddique, Cheltenham: Edward Elgar, 2007.

THIS book is based on the premise that Regional Trade Agreements (RTAs) in the Asia-Pacific make significant impact on the material progress of the peoples of this region. These impacts - in terms of the benefits and costs associated with RTAs - will vary greatly from country to country. The internationally acclaimed contributors examine the theoretical perspective of RTAs in relation to exchange rates, the role and goals of the WTO and agriculture. The tensions and trade frictions resulting from the formation of trade blocs and their conflicts with the roles and goals of the WTO are also examined in the book. Those economies that are considered the economic powerhouses of the region including China, Japan, South Korea, major ASEAN countries and Australia are discussed in depth. The findings of the book suggest that RTAs are becoming increasingly popular in the Asia-Pacific region. However, the associated costs and benefits depend on a number of complex factors including exchange rates, negotiation skills, the sectors included or excluded from the RTA, and the level of economic development of the nations signing the RTAs.

ARTICLES

A Region-wide Free Trade Agreement in Asia

by Pradumna B. Rana, 25 June 2012,
http://www.voxeu.org/article/free-trade-agreement-asia

THE Trilateral Summit recently announced that negotiations would begin later this year on a China/Japan/South Korea FTA or the C/J/K FTA (Joint Declaration 2012). This suggests that two pathways to a region-wide FTA are starting to evolve in Asia. One is the ASEAN-led East Asian FTA and the Comprehensive Economic Partnership for East Asia (CEPEA) comprising the ASEAN+6 including India. The alternative pathway is the US-led Trans-Pacific Partnership, which is already under negotiation.

In the past two decades the world has witnessed a proliferation of free trade agreements (FTAs), with Asia in the forefront. The number of FTAs signed by Asian countries increased from three in 2000 to 71 in 2012. Of these, 62 FTAs are now in effect (Kawai and Wignaraja 2012). This proliferation has occurred mainly because multilateral negotiations under the Doha Development Round have stalled. Although recent research results are more sanguine, proliferation of FTAs lead to the so-called "noodle bowl" effect which refers to the increased administrative and transaction costs due to multiple rules of origin (for more on this see Kawai and Wignaraja 2012).

One way of reducing the "noodle bowl" effect of FTAs and making them stepping stones, rather than stumbling blocks, to multilateralism is to broaden their membership and to deepen their coverage beyond tariffs to areas such as promotion of investment and technology cooperation (Francois *et al.* 2009). Region-wide FTAs are less trade diverting and more trade creating than bilateral ones.

Two Pathways

The ASEAN-led pathway begins with the ASEAN FTA which has been in place since 1992, combining it with the ASEAN+1 FTAs with China, Japan, Korea, India, Australia, and New Zealand, and then consolidating these with the trilateral C/J/K FTA. The resulting East Asian FTA could then be expanded to cover all of the ASEAN+6 and become the CEPEA. This sequential approach to trade integration reflects Asia's pragmatic bottom-up approach to integration that supports sub-regional cooperation as the building blocks of an eventual broader, deeper, and more unified regional architecture (Asian Development Bank 2008).

The alternative pathway, the US-led Trans-Pacific Partnership (TPP), is also gaining currency (Plummer 2012). In addition to the nine countries in three continents – Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, United States, and Vietnam, at the APEC Summit in Honolulu in November 2011, three more countries – Japan, Canada, and Mexico – expressed their interest in joining the negotiations as well. The 12th round of negotiations just concluded in Dallas, Texas, and the target is to try to wrap it up by the year end. A key element of the Obama Administration's commitment to make US engagement in the Asia-Pacific a top priority, the TPP focuses on a deep "high quality, 21st century" FTA which covers not only trade in goods and services, but also intellectual property rights, government procurement, labour standards, environmental regulations, and small & medium enterprises. It seeks to eventually achieve the APEC's stalled Free Trade of the Asia-Pacific (FTAAP).

Complementary or Competitive?

Are the two pathways to region-wide FTA in Asia, complementary or competitive? Japanese Prime Minister Noda has been quoted as saying: "We will promote the TPP and the trilateral FTA in parallel. These efforts can be mutually reinforcing to each other" (*Financial Times* 2012). Others have a different take. Jagdish Bhagwati, a trade economist from Columbia University, has argued that one of the major reasons for the stalled efforts to promote the Free Trade of the Americas between North America and South America was the insistence by the US that high doses of non-trade related issues including labour standards be included in the talks. Brazil's former President Luiz Lula Inacio de Silva, totally rejected the inclusion of labour standards in trade. The US efforts, therefore, led to the division of South America into two blocs (Bhagwati 2011).

The C/J/K FTA

When the leaders of China, Japan, and Korea announced on 13 May 2012 that they had agreed to begin negotiations on the C/J/K FTA later this year, they also announced a complementary agreement on a three-way investment treaty. Although the C/J/K FTA had been on the drawing board for some time, progress had not been made in the past as the three north-eastern neighbours are divided by political distrust, protectionist interests, and divergent investment policies, as well as by regional worries about China's expanding economic and military power. Also, China and Japan have yet to initiate talks for a bilateral FTA, and the South Korea and Japan negotiations have stalled since 2004. Why the sudden change?

The leaders described their steps as a means to not only boost trade but also to cement East Asian regionalism and build political trust among each other. All three countries are major global exporters and together they account for nearly 20 per cent of world GDP. The Xinhua news agency reported that the C/J/K FTA could lift China's GDP by up to 2.9 per cent, Japan's by 0.5 per cent, and Korea's by 3.1 per cent.

Still many hurdles remain for the successful negotiation of the C/J/K FTA. In addition to those mentioned above, China is unlikely to make concessions that would threaten the state's ability to control what it perceives as strategic industries, and agriculture producers in Japan and Korea have the political clout to defend the extensive trade barriers that benefit them.

If the intent of the leaders' announcement last month was to show support to the ASEAN-led pathway to a region-wide FTA in Asia – in view of the perceived threats from the US-led pathway – they should overcome the political and other obstacles and conclude the negotiations as swiftly as possible. At the end of the day that is what matters and not expressions of interest to begin negotiations.

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Good News on Free Trade Agreements

by James Anderson and Yoto V. Yotov, 19 May 2011, http://www.voxeu.org/article/good-news-free-trade-agreements

FREE trade agreements are controversial. While they promote trade between the member countries, they may also divert trade away from non-member countries, potentially reducing welfare. This column provides evidence that, even when trade diversion is taken into account, the overall effects are still strongly positive.

Academic and political thinking about free trade agreements (FTAs) has been concerned about the potential harm to outsiders from trade diversion since Jacob Viner clarified the issues more than 60 years ago (Viner 1950). But economists are still not clear on the magnitude of trade diversion.

How Large is the Harm from Trade Diversion?

Does the gain to current FTA partners from trade diversion create a stumbling block to further expansion because that gain would have to be given up?

These are questions that are still up in the air even after 60 years of attention. Recent research sheds new light on these questions.

The Basic Economic Logic

Free trade agreements divert trade from outsiders to insiders because the relative cost of insider business falls. Tariffs between partners disappear while remaining in place for non-partners. More important in the modern setting of already low tariffs are the non-tariff barriers that fall between partners as regulatory barriers are reduced and the greater security of trade relations stimulates potential traders to invest in deals with insider counter-parties. Baldwin (2011) describes how recent FTAs are deeper than tariff agreements.

In order to assess trade diversion and its effects through non-tariff barrier reductions, we need an empirical analysis of trade flows before and after implementation of FTAs. Our recent work tackles these questions (Anderson and Yotov 2011). FTAs provide gains to partners, large for the smaller partners, while inflicting very small losses on outsiders. Regional trade agreements appear to be building blocks rather than stumbling blocks. Direct gains to new partners are big, while indirect effects on outsiders are small.

Earlier efforts at empirical assessment of the effect of FTAs were hampered by the endogeneity problem – FTAs form between partners who already trade a lot with each other. Baier and Bergstrand (2007) satisfactorily resolve the endogeneity problem by applying panel data methods due to Wooldridge (2002). Using a gravity model of aggregate bilateral trade flows, they report that fully phased-in FTAs double the bilateral trade of partners relative to non-partners, a large effect consistent with a large reduction of non-tariff barriers.

Building Block vs. Stumbling Block

The future expansion of FTAs appears unlikely to be hampered by insiders having to give up important previous gains at the expense of outsiders. Our findings of very small terms-of-trade losses to outsiders suggest that such potential stumbling blocks would be too small to notice while the size of the direct benefits to partners that join suggest much larger building blocks.

We provide further evidence of this overall effect in a counterfactual analysis by removing Mexico from NAFTA, reverting to the previous Canada-US FTA. In that scenario, all parties lose, while Mexico's loss is larger by far, wiping out over 80 per cent of its 7.6 per cent terms-of-trade gain from its 1990s FTA implementations.

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South-South Free Trade Agreements: A Work in Progress? by Ganeshan Wignaraja, http://www.voxeu.org/article/south-south-free-trade-agreements-work-progress

SOUTH-SOUTH trade and trade agreements are booming amid the stalled Doha trade talks and a fragile world economy. In Asia alone, trade agreements have grown from only 3 to 61 between 2000 and 2010. This column examines Asia's experience and argues that South-South trade agreements should increase their coverage of goods and services and improve consistency with global rules to fully support South-South trade.

The last two decades have seen an unprecedented surge in free trade agreements

(FTAs) as part of efforts to promote regional trade and investment. According to WTO estimates, 300 agreements were in force worldwide in 2010 compared with only 70 in 1990 (WTO 2011). Developing countries have driven the hike with South-South FTAs presently making up two thirds of FTAs in force. While the factors motivating their global spread have been carefully scrutinized (see Bhagwati 2008, Baldwin 2011), little attention has been devoted to studying the evolution and anatomy of South-South and North-South FTAs, or the extent to which they are compatible with global rules and each other. Author's research on Asian FTAs attempts to fill this gap and provide policy suggestions (Wignaraja and Lazaro 2010).

South-South FTAs: Where We Are

FTAs have surged in Asia as regionalism intensifies and production networks flourish. Typically, they provide market access and lay the groundwork for deeper integration. The number of concluded FTAs (signed and in effect) has grown from only 3 to 61 between 2000 and 2010. Increased South-South trade has accompanied the region's economic development as intra-regional and inter-regional trade expands. The proportion of Asia's South-South FTAs to North-South FTAs (39 to 22) reflects these evolving trade patterns. But quantity does not necessarily equal quality. In five key areas under review – tariff liberalization, rules of origin, liberalization of trade in services, WTO notification, and deep integration – North-South FTAs were generally more compatible with WTO and other global rules.

Beginning with tariff liberalization, Article XXIV of the General Agreement on Tariffs and Trade (GATT) states that "duties are eliminated [on] substantially all trade…within a reasonable length of time." Yet over one third of all Asian South-South FTAs have only limited goods coverage, while another 40 per cent eliminate tariffs on substantially all trade over a period lasting more than five years. In contrast, roughly one third of North-South FTAs eliminate tariffs upon entry into force, while an additional 25 per cent do so within two to five years.

Rules of origin determine the goods that enjoy preferential tariffs in order to prevent trade deflection (the entry of imports to a low-tariff member of an FTA, when their ultimate destination is a higher tariff member) among FTA members. In practice, such rules can actually raise transaction costs for firms and generate confusion over compliance. This is especially the case with rules of origin included in Asian South-South FTAs. According to firm-level data from Kawai and Wignaraja (2011), over 30 per cent of firms view rules of origin as an impediment to using South-South FTAs, compared with only 13 per cent for North-South FTAs.

Conformity with Article V of the General Agreement on Trade in Services (GATS) requires FTAs not to include restrictions on the liberalization of such key services as business and professional, communications, financial, transport, and labour and business persons' mobility. Nearly three quarters of Asian North-South FTAs liberalize trade in these five services – less than 20 per cent of South-South FTAs do, while nearly half exclude services or have limited coverage of services at best. (The notable exceptions among South-South agreements are the Association of Southeast Asian Nations FTA and other agreements involving Singapore.)

Some GATT provisions essentially require a member country to notify and submit details to the WTO with regard to FTAs and related interim agreements. The intent is to improve transparency in the global trading environment. Roughly two thirds of South-South FTAs comply with these notification requirements, compared to 95 per cent of North-South FTAs.

A thorny issue in the early days of the Doha Round concerned the depth of economic integration as measured by the so-called Singapore issues – investment, competition policy, government procurement, and trade facilitation. While these issues were later dropped, they still remain important for future trade-policy negotiations. More than 80 per cent of Asian North-South FTAs have at least some coverage of the Singapore issues, compared with only about 20 per cent of South-South FTAs.

How to Improve South-South FTAs?

To harmonize North-South and South-South FTAs, new Asian FTAs should adopt the following good practices for core areas, with modifications made to existing FTAs where reviews are possible:

Tariff liberalization. Eliminate a minimum of 85 per cent of all tariffs within 10 years.

Rules of origin. Design and administer rules that are guided by Asia–Pacific Economic Cooperation principles of simplicity and consistency, as well as WTO requirements of transparency and prospective application.

Services liberalization. Incorporate at least five key services sectors – business, communications, financial, transport, and labour and business persons' mobility – and pursue reform of competition policy.

WTO notification. Include procedural requirements to promote greater transparency and improve consistency with global rules.

Deep integration. First incorporate good practices on investment and trade facilitation, and then address the more difficult issues of competition policy and government procurement.

In addition, the quality of FTAs in Asia can be enhanced by setting up a regional advisory centre to address limited institutional and human resource capacities among some countries in the region (see Baldwin and Thornton 2008). This centre would engage legal advisors, train officials, and lead studies to prepare countries to better design, negotiate, and implement WTO-compliant and WTO-plus FTAs.

In the medium to long term, a regionwide FTA would be an important means to better align compatibilities in global and regional rules among Asia's North-South and South-South FTAs. Depending on its scope, the basis for such a regionwide FTA might be either ASEAN+3 (ASEAN plus People's Republic of China, Japan, and the Republic of Korea); ASEAN+6 (ASEAN+3 plus India, Australia, and New Zealand); or a Free Trade Agreement of the Asia–Pacific (APEC members). A practical first step might be to take the best features from current ASEAN FTAs and design a template consistent with global rules. Finally, concluding the WTO Doha Round and avoiding protectionism would further allow South-South trade and FTA activity to flourish.

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One, Two, Three Free Trade Agreements: Finally, a New Era for Global Trade?,
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NEARLY five years after the Bush administration first negotiated free trade agreements (FTAs) with South Korea, Colombia and Panama, revised versions of those pacts were finally approved by the US Congress last fall and will be implemented during 2012.

Although global companies reacted with an anti-climactic sense of relief, trade analysts welcomed the new opportunities that the pacts will open for US exporters in 2012. Like other US free trade agreements, the new pacts won't just eliminate tariffs that raise the prices on many US exports to those countries; they will also gradually eliminate non-tariff barriers that make US products harder, or more expensive, to export. Equally important, the pacts will expand trade opportunities for US exporters by requiring stricter protection of their intellectual property in those foreign markets.

Like other trade pacts, the provisions will be a two-way street — opening markets and lowering costs for exports from those countries to the US.

Some optimists in the US trade community argue that 2011 could one day be viewed as a turnaround year for US trade policy. Although it took several years for the Obama team to push through the Bush administration's three orphan FTAs, Stephen Lande — president of Manchester Trade, a Washington, DC-based consultancy — says that Obama "deserves credit" for securing Congressional approval of the pacts by sending US Trade Representative Ron Kirk to address the concerns of US labour unions and automakers regarding these agreements. The FTAs "passed the Congress in the right way," says Mr. Lande. "The political system operated correctly, and you did not have the backlash that you had after NAFTA [the North American Free Trade Agreement]."

Although NAFTA wound up creating many export-related jobs in the US, a high number of other jobs were lost to Mexico. Critics in the US became convinced that NAFTA also depressed US wages intentionally so that US manufacturers could compete against cheap Mexican labour. In addition, they say, NAFTA failed to deliver on the promise of some supporters that it would reduce the flow of illegal immigration and drugs from Mexico.

Yet Rob Mulligan, senior vice president at the US Council for International Business, suggests that the US political environment is more favourable for future trade agreements than any time during the past few years. The Central American Free Trade Agreement (CAFTA), which was negotiated between the US as well as five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and the Dominican Republic in 2006, passed by only two votes, notes Mr. Mulligan, "but these three trade agreements passed by a lot more." For example, the vote on the treaty with South Korea on 12 October 2011, was passed by a margin of 83 to 15 in the Senate and 278 to 151 in the House.

Mr. Obama and Mr. Kirk not only modified the agreements with South Korea and Colombia to address serious concerns raised by US labour unions, but also made a strong case to the public that these pacts could help meet the official goal of this administration's National Export Initiative — to double exports from 2010 to 2014 — as well as create a significant number of new jobs.

The optimists argue that one of the most lasting legacies of the Obama administration could turn out to be a broader political consensus that free trade is part of the solution to slower economic growth, not part of the problem. If so, support for further free trade agreements could survive into the next US administration regardless of whether Mr. Obama is re-elected. Although Mr. Obama was critical of NAFTA during his 2008 presidential campaign and was slow to push through the three new treaties, Wharton management professor Felipe Monteiro agrees that the President has become "very pragmatic" about trade issues. "I don't think there will be an ideological interpretation" when it comes to the issue of trade, he states, adding that he expects the US to keep moving forward with its renewed trade agenda.

Exporting More, Investing More

However, not everyone is convinced that the opponents of free trade have been won over to the President's arguments. Brian A. Pomper, a Washington, DC-based partner at the international law firm of Akin Gump Strauss Hauer & Feld, points out that support for the three new pacts among Republicans was the key to their victory — not support by Democrats. Despite all the arm-twisting by the President Obama and Mr. Kirk, "the Democratic votes were pretty disappointing," says Mr. Pomper, a pro-trade Democrat.

Less than one-third of House Democrats — a total of 59 — voted in favour of the pact with Korea, versus 130 Democrats who voted against it, he notes. Despite all the changes to the Colombia pact, which made its labour rights provisions directly enforceable by law, only 31 House Democrats voted in favour of it, compared with 158 Democrats who voted against it. That vote shows that US trade unions were "implacable" in their opposition to the Colombia pact, says Mr. Pomper.

The vote aside, Mr. Mulligan argues that the three new agreements were "a big accomplishment" that will have an important impact on US exporters across several sectors. For example, thanks to the US pact with South Korea, nearly 95 per cent of bilateral trade in consumer and industrial products will become duty-free within five years, and most of the remaining tariffs will be eliminated within 10 years. The Koreans purchased $34 billion of US goods in 2010, the sixth-highest total in the world. From January through September 2011, the US exported $32.5 billion of goods to Korea, up from $28.8 billion a year earlier.

Colombia, which imported $11 billion of goods from the US, and Panama, which imported $6 billion, lag well behind Korea in size and economic importance, but they are also growing markets with a positive financial outlook. "Overall, US companies will export more and invest more money in those markets" as a result of these agreements, says Mr. Mulligan.

In the best case scenario, many US exporters could quickly make up some of the ground they lost last year when Canada and the European Union (EU) implemented their own FTAs with Korea and Colombia while the US stood idly by. Since the EU enacted its FTA with South Korea in July 2011, EU exports to South Korea have been increasing much faster than US exports.

A key reason, notes Doug Goudie, director of international trade policy at the National Association of Manufacturers, is that US exporters were operating at a disadvantage against their European competitors: South Korean buyers of European goods were enjoying a 10 per cent discount compared with buyers of US-made goods, thanks to the absence of tariffs on imports from Europe. "If you can get a 10 per cent discount, you take it," says Mr. Goudie. "We are sort of playing catch-up," adds Shaun Donnelly, vice president for investment and financial services at the United States Council for International Business. "I am afraid that there is a price to pay for this time out. We did lose the potential to get in [South Korea] earlier."

Likewise, some US exporters to Colombia have fallen behind against competitors from Canada, which enacted its own free trade agreement with Colombia in August 2011.

Spanning the Pacific

Longer-term, the three new US pacts may wind up being dwarfed by a much more ambitious new initiative known as the Trans-Pacific Partnership. According to US officials, the goals of the TPP — which will take years to negotiate and win approval by member-governments — will involve "enhancing trade and investment" among its nine Pacific Rim members, including the US; "promoting innovation, economic growth and development," and supporting job creation and retention.

Unveiled in November 2011, the TPP will bring together under one giant umbrella several countries with which the US already has enacted bilateral free-trade agreements — Australia, Chile, Peru and Singapore — as well as such countries as Brunei, Malaysia, New Zealand and Vietnam, which have not previously negotiated FTAs with the US. Collectively, these countries purchased $84.2 billion in US exports in 2010. The TPP will vastly transcend in scope not only previous US bilateral pacts, but also previous regional agreements, such as NAFTA and CAFTA. For the moment, at least, the TPP will not include South Korea.

According to Mr. Mulligan, "The TPP picked up momentum partially because other countries realized that the US is serious about trade" after Congress approved the three FTAs. Adds Wharton management professor Mauro Guillén, director of the Lauder Institute of Management and International Studies: "The US prefers to negotiate either multilateral or bilateral agreements. It prefers not to negotiate [agreements between the US and] blocs of countries" such as Mercosur — composed of Argentina, Brazil, Paraguay and Uruguay. Because the TPP will make it easier for exporters in Chile, Colombia and Peru to access markets in the fast-growing Asia/Pacific region, the TPP will be "a big deal" for exporters there, says Mr. Guillén, adding that "all the countries in the agreements have a lot to gain from trade with the US."

The Obama administration's commitment to the multilateral TPP reflects growing interest in the fast-growing Pacific region among US policy-makers at a time when the financial condition of the slow-growing European Union is at risk. Although two of the three most recent US trade pacts involve Latin American countries — Colombia and Panama — the pact with South Korea is by far the largest in terms of economic impact, representing the largest bilateral US trade agreement since NAFTA was enacted on 1 January 1994.

Again, the US seems to be playing catch-up. According to a recent report by the Brookings Institution, the number of free trade agreements (FTAs) involving Asian countries increased from just three pacts in 2000 to 54 pacts in 2009, yet only two of those agreements involved the US as a partner. Prior to Congressional approval of the US-Korea pact last fall, the US had not concluded any FTAs in Asia since its bilateral pact with Singapore in 2003.

Impeded by the lack of new trade pacts with Asia, Asian imports from the US declined as a percentage of those countries' total imports over the past decade. One example: for Indonesia, US imports fell from 10.1 per cent of that country's total imports in 2000 to 7.3 per cent in 2009; for the Philippines, from 19 to 12 per cent over the same period, and for South Korea, from 18.2 to just 9 per cent.

For US exporters, the TPP is expected to open new market opportunities in some countries that previously stopped short of making the full range of commitments required for forging a free trade agreement with the US. For example, Malaysia still imposes fairly high tariffs on imports from the US. During the administration of President George W. Bush, the US attempted to negotiate an FTA with Malaysia, but the negotiations faltered when the Malaysian government was "unwilling to make some commitments" regarding eliminating non-tariff barriers that would expand the access of US companies, says Mr. Goudie. By signaling its willingness to join the TPP, Malaysia "now apparently is willing to make" those specific commitments, he adds.

How deep and wide will the TPP eventually become? The governments of Canada, Japan and Mexico have already announced that they, too, would like to participate at some point in the future. Whether there will be a formal second stage in the membership process that eases their entry into the TPP is still "unclear," notes Mr. Goudie.

Looming over the future of the TPP will be the role of China, which could eventually be asked to join, according to some analysts. Brazil could also wind up forging some sort of relationship with the TPP, despite the fact that it lacks access to the Pacific. Although China has recently become the largest market for Brazilian exports, Brazil also wants to strengthen its trade ties with Peru and Chile, both future members of the TPP, says Mr. Monteiro. By associating itself in some capacity with the TPP, Brazil could use its relationship with South America's Pacific nations to enhance Brazilian companies' access to such Asia-Pacific markets as Australia, Malaysia, New Zealand and Japan. "Brazil doesn't want to become totally dependent on China," he notes.

If an agreement as sweeping and multilateral as the TPP becomes a success, will that mean that the long moribund Word Trade Organization-sponsored Doha Round of multilateral negotiations will finally be declared officially "dead?" Not necessarily so, according to Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers. "No one wants to declare the Doha Round dead," he adds, suggesting instead that the Round be called by its original name, the Doha Development Agenda. "The WTO should have its agendas as well," rather than viewing the Doha agenda as its only major initiative, Mr. Vargo says. "It is time that we admit that it is not a Round," something that he defined as a "huge caldron into which you throw all interests and negotiations, and where someone wins and someone loses."

India-Japan Free Trade Agreement: A Win-Win Deal by Jijo Jacob, 16 February 2011, http://www.ibtimes.com/india-japan-free-trade-agreement-win-win-deal-267457

INDIA and Japan, two of Asia's largest economies, signed a landmark free trade agreement (FTA) on Wednesday, paving way for the elimination of tariffs on more than 90 per cent of goods traded between the two countries over the next decade.

The agreement was signed in Tokyo by India's Commerce Minister Shri Anand Sharma and Japanese Foreign Minister Mr. Seiji Maehara. The pact will come into force after the Japanese parliament approves it.

New Delhi and Tokyo have been locked in talks over the Comprehensive Economic Partnership

Agreement (CEPA) negotiations to liberalize mutual trade since 2007.

The pact opens a huge window of opportunity for India, which accounts for just one per cent of Japan's trade with the rest of the world. Meanwhile, for Japan, liberalization of trade with India, the burgeoning consumer giant with a billion-plus population, comes at an opportune time. Japan this week officially lost its position as the second largest economy after the US to China as Tokyo said GDP growth rate fell 1.1 per cent in the fourth quarter of 2010.

The newly minted trade pact envisions the scrapping of tariffs in sectors like auto parts and machinery as well as farm and fisheries products, which will be mutually beneficial to both economies.

Japanese auto industry will cheer the planned scrapping of the 10 per cent tariff levied by India on Japanese exports of lithium ion batteries, DVD players and tractors over the next decade. Likewise, Japan will scrap tariffs it imposes on Indian tea and other farm products.

We have noted in our mind that this will usher in a new era of economic engagement, which will bring development, innovation and also prosperity in both of our societies, Shri Sharma said.

He said the pact paves the way for broader cooperation in bilateral trade and investment. The two sides said issues such as allowing Indian nationals to work in Japan's health industry will be discussed. India also agreed to dilute its restrictions on Japanese firms investing in Indian retail and telecommunication sectors. In return, Japan will expedite processes for approving the sale of Indian-made generic drugs.

Bilateral trade between the two countries, which was worth $10.3 billion in 2009-10, will get a major shot in the arm with the conclusion of the deal. As many as 9,000 products ranging from steel and apparel to drugs and machinery could be traded either without duty or at substantially reduced tariffs. Japanese exports to India mainly comprise vehicles and electronic goods while Indian exports to Japan include oil, steel and jewellery.

India-EU Free Trade Agreement and Implications for Sri Lanka by Manel De Silva, http://www.ft.lk/2013/02/01/india-eu-free-trade-agreement-and-implications-for-sri-lanka/

THE long-awaited India-EU Free Trade Agreement is expected to be concluded by spring this year, according to an announcement made by India's Ambassador to the EU. He had however cautioned that the conclusion depends on both the negotiators as well as the political will.

The negotiations on this FTA commenced in 2007 and were expected to be concluded some time ago, but a number of contentious issues such as differences over services and automobiles are supposed to have delayed the conclusion.

The FTA is expected to cover over 95 per cent of the tariff lines between India and the EU. Although India absorbs only a mere 2.5 per cent of EU exports, EU is India's single biggest trading partner and according to the European Commission, the value of India-EU trade grew from 8.6 billion euros in 2003 to 79.9 billion euros in 2011.

Trade in commercial services according to the Commission has tripled from 5.2 billion euros in 2003 to 17.9 billion euros in 2010. It is also estimated that once the pact is concluded, India would gain five billion euros while the EU's gains would be over four billion euros in the short run.

The pact, in addition to opening each other's markets for goods and services is also expected to boost investment. Both parties are expected to benefit by the conclusion of this FTA. For the economically struggling EU, access to the over one billion Indian market with an increasing population of high income youth population would be a windfall.

A recent report by FICCI stated that India has become the third largest in Asia in terms of purchasing power parity. To India too, free trade with the 27 countries within the EU would be a major boost to the economy. As observers point out, the FTA would help create more jobs and uplift the living standards on both sides. It would also create opportunities for technology transfer, improvement in supply chains, increased competitiveness and skill transfer for both sides.

India already has free trade pacts with Japan, Malaysia and South Korea in addition to ongoing negotiations with Thailand, Israel and Australia. With India gradually opening up its economy, this Broad Based Trade and Investment Agreement (BTIA) between India and the EU would cover almost 20 per cent of the world's population.

India and Sri Lanka are both recipients of tariff preferences under the EU GSP scheme and this scheme has enabled both countries to enter the EU markets. However, with the tariff liberalization under the FTA, when concluded, Indian products will definitely have an edge over imports to the EU from Sri Lanka.

What the impact would be on Sri Lankan exports, particularly on items such as apparel, fishery products, etc. remains to be seen once the document is in the public domain. It is understood that India wants EU to relax its stringent food safety criteria which penalize Indian farm and fishery products.

If the agreement allows foreign companies operating in India to be given the same treatment as Indian companies, then the Sri Lankan companies operating in India will stand to benefit. As at present, a number of Sri Lankan companies have established manufacturing units in various parts of India.

Another area of interest not only to Sri Lanka, but to most developing countries would be the intellectual property provisions with regard to medicines. India which has a strong drug manufacturing industry supplies over 80 per cent of HIV and AIDS drugs used in developing countries in addition to high quality generic drugs. There is concern as to whether the pact will include strict provisions which could hinder access to cheaper quality drugs by developing countries.

Analysis of Anti-dumping Use in Free Trade Agreements by Ahn, Dukgeun and Shin, Wonkyu, *Journal of World Trade*, April 2011, 45(2) pp. 431-456.

PROLIFERATING free trade agreements (FTAs) in recent years may have conflicting effects on anti-dumping (AD) uses among FTA parties. On the one hand, an FTA may increase a country's AD activities to protect its domestic industries from the increased import flows from other parties. On the other hand, an FTA supposedly helps reduce the use of AD measures to accomplish the purpose of free trade, whose effects can shed important lights on the question of whether an FTA on AD activites based on comprehensive empirical analysis can demonstrate usefulness of FTA. Using longitudinal data of major AD user countries from 1995 to 2009, the authors found that there is clearly an inverse relationship between an FTA and AD activities. The estimation results from the dynamic model show that the FTA enactment year clearly has significant effect, suggesting substantial reduction of AD investigations in that year.

Bilateralism, Multilateralism, and the Quest for Global Free Trade by Saggi Kamal and Yildiz Halis Murat, *Journal of International Economics*, 1 May 2010, 81(01), p. 26.

THE authors developed an equilibrium theory of trade agreements in which both the degree and the nature (bilateral or multilateral) of trade liberalization are endogenously determined. To determine whether and how bilateralism matters, the authors also analyzed a scenario where countries pursue trade liberalization on only multilateral basis. They found that when countries have asymmetric endowments or when governments value producer interests more than tariff revenue and consumer surplus, there exist circumstances where global free trade is a stable equilibrium only if countries are free to pursue bilateral trade agreements. By contrast, under symmetry, both bilateralism and multilateralism yield global free trade.

Investor-State Arbitration Under Bilateral Trade and Investment Agreements: Finding Rhythm in Inconsistent Drumbeats by He, Ling Ling and Sappideen, Razeen *Journal of World Trade*, February 2013, 47(1), pp. 215-241.

THE investor-state arbitration process has been commonly used under bilateral trade and investment agreements since first adopted by the North American Free Trade Agreement (NAFTA) in 1994. This mechanism has well served the investment interests of multilateral corporations. In recent times, some countries have been rethinking the special legal rights offered to foreign investors over domestic investors in dispute resolution through the investor-state arbitration process. This article examines the changing landscape in investor-state dispute resolution and its impact on bilateral trade and investment agreements.

Deeper integration between Canada and India? by Dobson Wendy Margin, February 2011, 05(01), p. 93.

RELATIVE to their economic sizes, structures and linkages, the bilateral relationship between Canada and India is too small. Trade and foreign direct investment (FDI) flows are gradually increasing within such sectors as finance, energy, power and environmental services, agriculture and information technology (IT) services. Two channels are identified to expand this economic footprint: deeper linkages among bilateral business groups to reduce Canadians' transactions costs relative to those in the United States (US) market; and improved market access for India's competitive low-cost producers. Governments, which focus primarily on incremental improvements, should elevate the bilateral relationship to a strategic level with the negotiation of a free trade agreement (FTA).

Weed Out the Differences, *Business Line*, 8 March 2010, p. 8.

THE end-January eighth round of negotiations between India and the European Union on liberalizing the bilateral trade and investment exchange may have spawned the hope that the long-awaited free trade agreement (FTA) between the two will be finalized by the end of the current calendar year. However, a closer look at the ground situation suggests that it may take longer in coming. The Union Commerce Minister, Shri Anand Sharma, is reported to have said that the talks were particularly fruitful as progress was made on "several issues", including services, which is important to New Delhi.

Are Free Trade Agreements Contagious? by Baldwin Richard and Jaimovich Dany, *Journal of International Economics*, September 2012, 88(01), p. 1.

THIS paper tests the hypothesis that the domino-like spread of regionalism is partly driven by 'defensive' FTAs, i.e. FTAs signed to reduce discrimination created by third-nation FTAs. A theory-based measure is used to test contagion against alternative determinants of regionalism. The main finding is that contagion is present in our data and robust to various econometric specifications, samples, and inclusions of various economic and political controls including the baier-bergstrand controls. Some support is found for political theories that stress 'political distance' but none for those that stress 'slow multilateralism'.

Disentangling Market Access Effects of Preferential Trading Arrangements with an Application for ASEAN Members under an ASEAN-EU FTA, Carrere, Celine and Others, *The World Economy*, January 2010, 33(1), p. 42-59.

IN May 2007, the Association of South East Asian Nations (ASEAN) Economic Ministers and the European Union Commission agreed to enter into free trade area (FTA) negotiations on a region-to-region instead of a bilateral approach that would take into account the different levels of development of ASEAN members. On a preferential basis with main objectives on both sides have been to promote trade and bilateral economic relations. This was clearly mentioned when negotiations were launched. In brief, like other FTAs recently negotiated around the world, one of the aims of the EU and ASEAN countries in their negotiations is to create a level playing field and exchange market access at the expense of other trading partners. The paper is organized as follows. Section 2 summarizes the situation of the different ASEAN members in the trading system. Section 3 introduces the preferential access measures that are applied at the HS-10 level in Section 4. Section 5 brings in rules of origin and Section 6 provides conclusive findings.

Prosperity in Co-operation: The ASEAN-Australia New Zealnd Free Trade Agreement (AANZFTA), Caruso, David, *The Journal of World Investment & Trade*, April 2010, 11(2), pp. 197-226.

THE importance and operation of a Free Trade Agreement (FTA) is to ensure market access and create new opportunities for business and industry in foreign markets. This article considers the extent to which, and how, the ASEAN-Australia-New Zealand FTA (AANZFTA) achieves these goals. Part II looks at the origins and expansion of the Association of South-East Asian Nations ASEAN). ASEAN's founding objectives are considered alongside its internal integration and economic growth as a regional trading bloc. Part III examines the development of Australia's trading relationship with ASEAN and New Zealand and how the trilateral negotiations for a free trade area and FTA between them originated. Part IV commences the analysis of the AANZFTA itself. Signing, entry into force and the Agreement's general scope and coverage are considered before outlining the specific aspects of the AANZFTA which are the concerns of this article. Part V examines the AANZFTA with respect to trade in goods. It focuses on the reduction/elimination of tariff regime established, and the varying time frames for each of the twelve countries party to the AANZFTA to implement their commitments. Part VI examines the rationale and consequences behind the CER partners recognition, pursuant to the AANZFTA negotiations, of Viet Nam as having full market economy by market economies is considered from its origins in the GATT. Part VII considers the effect of the AANZFTA on trade in services. Part VIII looks at investment under the AANZFTA and the measures adopted to ensure fair treatment and security for off-shore investors. Part IX considers the procedure to be followed under the dispute settlement provisions of the AANZFTA. Part X examines the Economic Co-operation Work Programme (ECWP) to be implemented to ensure all parties, particularly the least developed, can meet their obligations and take advantage of opportunities created by AANZFTA.

The Australia-India Proposed Free Trade Agreement and Trade in Agriculture: Opportunities and Challenges by Alann, Shawkat, Mukhopadhya, Pundarik and Islam, Md. Rizwanul, *The Journal of World Investment & Trade*, April 2013, 14(1), pp. 167-197.

IN 2007, Australia and India began a joint feasibility study to assess the prospects of an Australia-India Free Trade Agreement (FTA). Agriculture will be a crucial negotiation point in any such FTA. Agriculture is a key sector of the Australian economy, and an important and lucrative export, with more than half of the sector's output exported. The scope of increased domestic demand in agriculture is limited for a significant segment of the sector. Therefore, sustained growth of the industry requires new export markets to be opened. This paper analyzes the prospects of boosting agricultural exports from Australia via the proposed FTA. This paper assesses the tariff and non-tariff barriers in agriculture in India and critically assessess how an FTA could reduce these barriers. The benefits of increased liberalization of agricultural trade in India will also be discussed to demonstrate the mutually beneficial opportunities that reduced trade barriers could provide.

Which WTO Rules Can a PTA Lawfully Breach? Completing the Analysis in Brazil - Tyres, by Brink, Tegan, *Journal of World Trade*, August 2010, 44(4), pp. 813-846.

THE proliferation of preferential trade agreements (PTAs) has given rise to possible legal conflicts between PTAs and WTO rules. WTO jurisprudence on the PTA exception in GATT Article XXIV remains scant. A recent dispute concerning Brazilian measures on retreated types in the context of MERCOSUR was the first WTO case in which an environmental and health measure was interwined with an Article XXIV defence. While the Appellate Body resolved some important aspects of the relationship between PTAs and WTO rules in the case, the operation of the Article XXIV itself was not clarified. This article seeks to complete analysis on Article XXIV in Brazil - Tyres. It considers whether Brazil's import ban could be justified under Article XXIV, addressing both whether MERCOSUR meets the procedural and substantive conditions laid out in the article and whether Article

XXIV is an applicable defence to the measure at issue. Reconciling the panel's reasoning in the US - Line Pipe with the necessity test developed by the Appellate Body in Turkey – Textiles, this article suggests that Article XXIV can be interpreted as excausing only those breaches of MFN that are necessary to establish a PTA under Article XXIV to excuse its discriminatory import ban. In coming to this finding, this article seeks to draw some conclusions regarding the scope and applicability of the Article XXIV exception. In particular, it argues that the overly narrow focus on the definition of other regulations of commerce and other restrictive regulations of commerce has resulted in an inability to see the Article XXIV forest for the trees and a tendency to improperly invoke Article XXIV in regulatory contexts unrelated to the purpose for which it was provided.

An Appraisal of the South Asian Free Trade Agreement and Its Consistency with the WTO Rules on Preferential Trade Agreement
by Islam, Md. Rizwanul, *Journal of World Trade*, December 2010, 44(6), pp. 1187-1206.

THIS article critically analyzes the main features of the Agreement on South Asian Free Trade Area (SAFTA). As a preferential trade agreement (PTA) concluded among WTO members, the SAFTA must comply with the WTO rules on PTAs. This article finds that the SAFTA has flouted with the requirement of timely notification to the WTO. Even though the Agreement complies with the discreet requirements of the Enabling Clause, its shallow internal trade liberalization scheme would not have complied with Article XXIV of the GATT.

The Investment Chapter of the US-Colombia FTA: New Protections for the US Investors
by Maruyama, Warren H. and Rosenberg, Charles B., *The Journal of World Investment & Trade*, June 2010, 11(3), pp. 409-418.

THIS article examines an aspect of the US Colombia FTA that has received little attention so far: Chapter 10 of the Agreement. The investment provisions in Chapter 10 of the US-Colombia FTA will benefit US multinational companies and investors by providing heightened protections against the risk of future expropriations, discriminatory action, and other government measures that may generate future investment disputes between US investors and Colombia. the author first examine the investment climate in Colombia and then analyze certain key provisions in Chapter 10.

National Treatment Restrictions in Parties to the Central European Free Trade Agreement (CEFTA),
by Konopek Milan 2006, *OECD Journal: General Papers 2010*, 2, p. 21.

THIS paper reviews existing restrictions to national treatment found in parties to the CEFTA 2006. The review covers restrictions to national treatment such as approval and licensing/screening procedures, equity and other discriminatory measures on establishment, corporate organization, and transparency measures.

Review of Bilateral Investment Treaties Signed by Parties to the Central European Free Trade Agreement (CEFTA) 2006
by Konopek Milan, *OECD Journal:* General Papers 2010, 2, p. 33.

THIS paper reviews the content of bilateral investment treaties listed in annex 6 of the CEFTA 2006 with a view to identifying commonalities and potential gaps. The paper examines provisions on admission and treatment (i.e., national treatment and most-favoured nation); transfers, expropriation, and dispute settlement (i.e., state-to-state and investor-to-state).

Government Procurement in the EU-India FTA: Dangers for India by Sengupta Ranja, *Economic and Political Weekly*, 14 July 2012, XLVII (28), p. 19.

IN the proposed free trade agreement with India, the European Union is demanding access to India's government procurement market for contracts above a certain cut-off value. This is a controversial demand since it will give EU companies the right to bid for all government purchase contracts.

The negotiations of a bilateral trade and investment agreement (BTIA) between India and the European Union (EU) are revealing escalating aspirations on both sides for an ambitious coverage. As both sides hope to conclude the agreement by the end of this year, the latest information is that the EU is demanding access to India's government procurement market, a market which India has not committed to open under any of its current free trade agreements (FTAs) or at the World Trade Organization (WTO). Are Indian manufacturers and service providers ready to compete with their European counterparts in this very lucrative market, which also serves as an effective social and development policy tool? What will Indian companies get in return in the European market and will India gain on balance? And how does this compare with India's domestic laws regarding government procurement?

Government procurement (GP) or public procurement refers to purchases by government department/agencies of goods and supplies, services and construction and public works. In developing countries, the GP market represents roughly 15-30 per cent of the total market and is lucrative for developed country companies. In India, estimates vary but the United Nations Conference on Trade and Development, India (UNCTAD, India 2007) estimate puts it at 13.9 per cent of gross domestic product (GDP) in 2007, while more recent estimates show this market is worth about $156 billion, about 12 per cent of GDP. A basic estimate shows the Indian market to be worth ₹800,255 crore or $142.9 billion.

The EU wants access to India's government procurement market for contracts above a certain cut-off (called the threshold) value. This seems to be a core mandate for the EU negotiators in most of its FTAs. This is not just about transparency in the process but about market access, and therefore, giving EU companies the right to bid for all government purchase contracts. The government cannot, in general, give special treatment to Indian companies and this opening up can technically include all central and state government purchases and that by public sector undertakings (PSUs). India will apparently get reciprocal access, but the literature points towards significant barriers.

European Union-India Trade Negotiations: One Step Forward, One Back? by Khorana Sangeeta and Garcia Maria, *Journal of Common Market Studies*, July 2013, 51(04), p. 684.

THIS article contributes to debates on the proliferation of bilateral free trade agreements (FTAs), by analyzing novel empirical material: the EU-India FTA negotiations, which have attracted little academic scrutiny. By elaborating on the underlying negotiating interests and strategies of the EU and India, the article examines the significance of overarching interests in ongoing negotiations and articulates the defensive and offensive interests of both parties. It presents a vision of the controversial and milieu-shaping interests at stake, which offer an alternative theoretical explanation for the pursuit of FTAs, and highlights possible outcome scenarios.

SAFTA as An Instrument of Rejuvenating Indo-Pak Trade Relations by Swamy Raju Narayana, *Foreign Trade Review*, Jan.-March 2011, XLV(04), p. 36.

THE authors have made an attempt to quantify the trade barriers operating in Indian industry in order to understand whether protection levels actually decrease following trade liberalization. The authors have also computed several measures of trade liberalization covering tariff barriers - effective rate of protection and import penetration rates under different phases of trade reforms.

Defragenting Fragmented Rules of Origin of RTAs: A Building Block to Global Free Trade by Choi, Won-Mog, *Journal of International Economic Law*, March 2010, 13(1), pp. 111-138.

REGIONAL Trade Agreements (RTAs) provide countries with many benefits. The multilateral trading system also received these benefits, as successive and overlapping RTAs are the building blocks for the most viable and realistic path to global free trade. Nonetheless, the spread of criss-crossing RTAs in the world has generated serious problems, including rising transaction costs. While pursuing the long-term goal of harmonizing preferential rules of origin (ROOs), countries need to actively implement the diagonal or full accumulation systems on a sectoral basis, starting from the sectors in which identical product-specific rules among participating countries have been introduced. The adoption of coequality in the change in tariff classification and regional value content (VC) rules also give trading firms more flexibility. If WTO members are able to set up model ROOs, the degree of each RTA's deviation from this benchmark may be calculated and certain modalities for its reduction could be negotiated multilaterally. In the longer term, other systemic rules on top of ROOs need to be converged or harmonized across RTAs on a regional or global basis. The effort to defragment fragmented RTAs should continue even beyond the time when most favoured nation (MFN) tariff rates go down to zero worldwide. Even if all preferential origin regimes shall have become irrelevant by then, various other rules and procedures will still have to be converged and harmonized across RTAs.

Dual WTO Notifications of RTAs with Non-Reciprocal Trade Liberalization by Kim Jong Bum, *Journal of International Economic Law*, June 2012, 15(2), pp. 647-672.

DISAGREEMENT between the parties involved in regional trade agreements (RTAs) about the legal basis of RTAs has led to dual notifications of some RTAs to the WTO. Dually notified RTAs are characterized by non-reciprocal trade liberalization between developing and developed RTA parties. If all the parties of a dually notified RTAs are ‘developing’ countries, the RTA can find its legal basis both under Article XXIV and the Enabling Clause. In that case, the Committee on Regional Trade Agreements (CRTA) and the Committee on Trade and Development (CTD) may both serve as forums for reviewing dually notified RTAs under the Transparency Mechanism for Regional Trade Agreements. However, if one of the parties of a dually notified RTA is a ‘developed’ country, the RTA’s legal basis is solely in Article XXIV. To determine the development status of the parties to a dually notified RTA, the WTO should require the RTA party notifying under Article XXIV to disclose its economic development status for the purpose of the WTO review based on the ‘self-selection’ principle. If the party notifying under Article XXIV declares itself a ‘developed’ country, the CRTA would be the sole forum for the review. However, if the party declares itself a ‘developing’ country, both the CRTA and the CTD may serve as appropriate forums for the review. A proposal made during the Doha Round to require all RTA parties to make a joint notification under a single legal basis is inconsistent with the WTO law and would not serve the purpose of effective review of RTAs under the WTO.

Free Trade and Cultural Policies: Evidence from Three US Agreements by Gagne, Gilbert, *Journal of World Trade*, December 2011, 45(6), pp. 1267-1284.

THROUGH preferential free trade agreements (FTAs), the United States seeks to secure concessions in sectors, such as cultural and audio-visual services, from which to set precedents for its next trade liberalization endeavours. Insisting on wide-ranging liberalization and predictable, clearly defined trade rules, the United States has used a top-down or negative list approach. Hence, sectors and measures, in the fields of services and investment, not specifically excluded are covered by liberalization commitments. On the other hand, states are encouraged to use a wide array of financial and regulatory instruments in the pursuit of cultural policies under the 2005 United Nations Educational, Scientific and Cultural Organization (UNESCO) Cultural Diversity Convention, which the United States has strongly opposed for its potential trade restricting effects. In view of the deadlock in current multilateral trade negotiations, regulatory character of the provisions of the Convention, and the US stance on the treatment of cultural goods and services in international economic exchanges, US FTAs are to prove the main source of legal constraints as to states ability to pursue cultural policies.

Reshaping the EU’s FTA Policy in a Globalizing Economy: The Case of the EU-Korea FTA by Horng, Der-Chin, *Journal of World Trade*, April 2012, 46(2), pp. 301-326.

ON 3 October 2006, the European Union (EU) initiated a new generation Free Trade Agreement (FTA) Policy in Global Europe: Competing in the World. Market potential and protection level were set out as the key economic criteria for new FTA partners. Based on these criteria, South Korea emerges as one of the EU’s priorities. The EU-Korea FTA, signed on 6 October 2010, is the first of a new generation of FTAs. The Agreement is very comprehensive with regard to trade liberalization in a number of fields, including services, investment, competition, enforcement of intellectual property rights TPRs), government procurement, sustainable development, cultural cooperation, and so on. Many of these policy areas are still not well regulated by the World Trade Organization (WTO). Under the Lisbon Treaty, EU trade policy shall be conducted in the context of the principles and objectives of EU foreign policy. Leveraging trade and foreign policy is expected to strengthen the EU's position in negotiating new FTAs. This article takes the EU-Korea FTA as a case study to examine the following core issues: the historical background of the EU's trade policy, legal basis and decision-making procedure of the new generation FTA, the main contents and special features of the EU-Korea FTA, and the impacts of the EU-Korea FTA on the WTO and third countries. For the future development of EU's FTA policy, this article also proposes an open regionalism approach to make the FTA compatible with the WTO.

The Roadmap for a Prospective US-ASEAN FTA: Legal and Geopolitical Considerations
by Hsieh, Pasha L., *Journal of World Trade*, April 2012, 46(2), pp. 367-438.

THE article examines the legal framework governing economic relations between the United States and the Association of Southeast Asian Nations (ASEAN) and outlines a roadmap for a US-ASEAN Free Trade Agreement (FTA). Notwithstanding ASEAN's emerging centrality in Asian regionalism, America remains the only Pacific power that has not concluded any form of FTA with ASEAN. This article explains that limited progress in Washington's efforts stemmed from the domestic politics of the US Trade and Investment Framework Agreement (TIFA) approach and the Myanmar dilemma. It further analyzes the challenges that the Trans-Pacific Partnership (TPP) Agreement negotiations have encountered and contends that the TPP cannot be a substitute for a US-ASEAN FTA.

Finally, a Plan 'B' roadmap to reinvigorate US-ASEAN trade ties is proposed. This roadmap calls for an enhanced TIFA that incorporates the building block features of ASEAN's framework agreements, thereby laying a solid yet gradual foundation for an FTA. This research therefore provides a valuable study of a region-based FTA under the multilateral trading system.

Trade and Investment in Regional Trade Agreements: The Case of the Central European Trade Agreement (CEFTA) 2006
by Konopek Milan, *OECD Journal: General Papers*, 2010, 2, p. 9.

OVER the past twenty years, the economies of Central and South East Europe have undergone fundamental changes - the opening of new markets, major policy reforms, deeper intra-and inter-regional economic integration and institutional improvements - which have significantly altered the landscape of economic activity in the region. This paper explores the experience in South East Europe and investigates how this growth has impacted the geographical location of economic activity in the region as well as foreign direct investment flows.

(Contd. from p. 14)

"I am confident that we have the ability to mitigate the trade imbalance between our two countries and China never has any intention to seek trade surplus," Mr. Keqiang told the Indian business community at New Delhi.

He was speaking at a function organized by industry body FICCI and Indian Council of World Affairs (ICWA). "China is willing to launch negotiations on a China-India regional trading arrangement," he said.

Mr. Keqiang said his government supports Chinese enterprises to increase investments in India and expand trade in services.

"China and India are huge markets with great potential... India has competitive edge in IT, software and bio-medicines...," he said adding China can also help India in its infrastructure projects. He also said both sides should work together to curb protectionism. While India's export to China stood at only $13.52 billion in 2012-13, its imports from that country aggregated $54.3 billion, leaving a trade deficit of $40.78 billion.

(*Business Standard*, 21 May 2013)

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ISSN 0972-2076

Printed and published by **Prof. Ashok Kapoor,** Registrar, for Indian Institute of Foreign Trade, B-21 Qutab Institutional Area, New Delhi-110016 at I.G. Printers Pvt. Ltd, Okhla Phase-I, New Delhi-110020.