



# Dynamics of RTAs

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# **Regional Trading Arrangements : Economic rationale**

- **A desire to obtain more secure, quick and preferential access to major markets.**
- **The pressures of globalisation, forcing firms and countries to seek efficiency through larger markets, increased competition, and access to foreign technologies and investment.**
- **Material management**
  - **Cheaper imports – domestic prices in control**
  - **Better quality products at competitive price**
- **Investments flow – JVs**
- **Coverage of Services**
- **Mutual recognition of standards & laboratories**
- **Trade facilitation, Harmonisation of Customs procedures etc.**

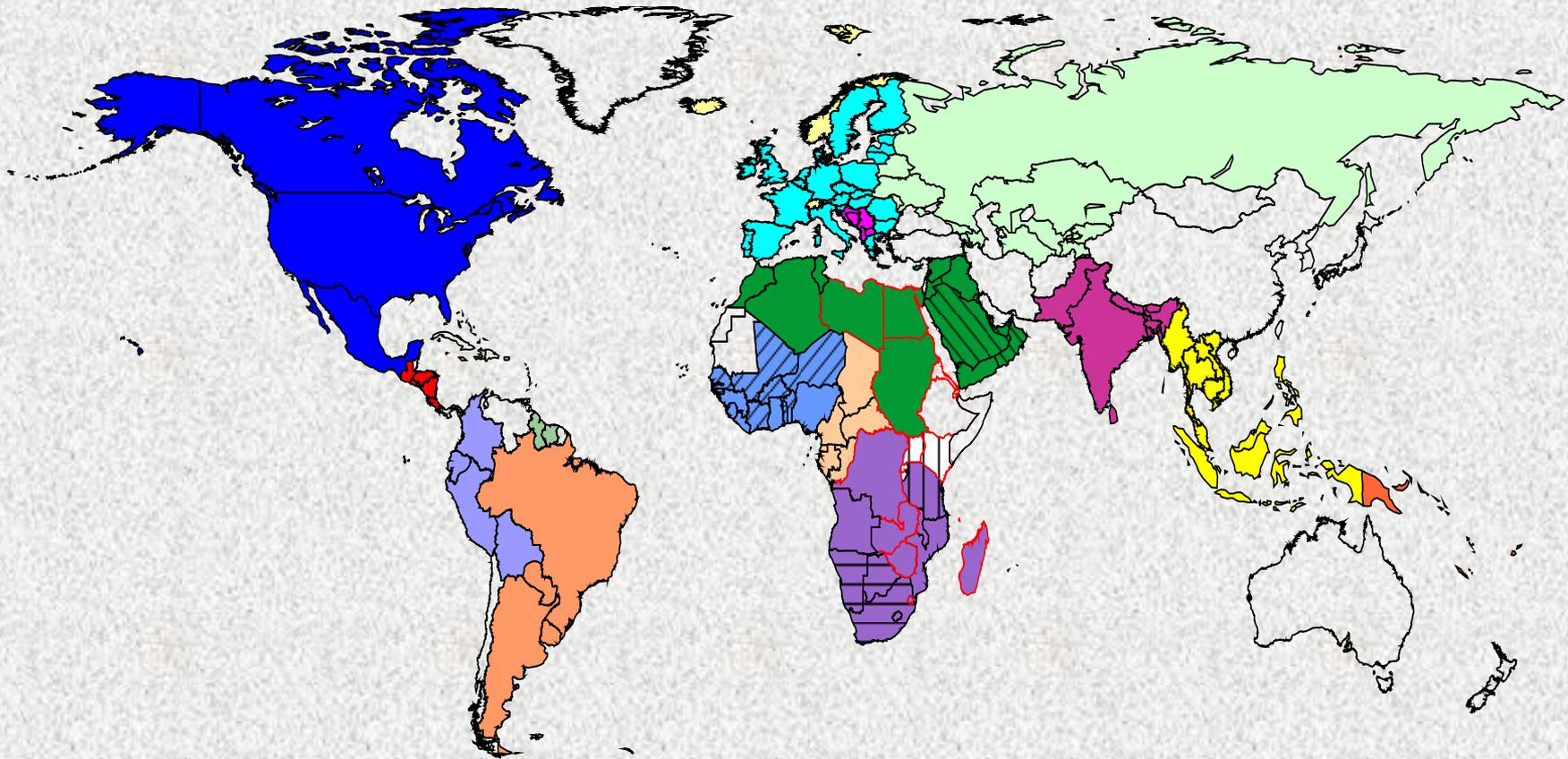
# Other Reasons

- ▣ **Governments' desire to maintain sovereignty by pooling it with others in areas of economic management where most nation-states are too small to act alone.**
- ▣ **Governments' wish to bind themselves to better policies and to signal such bindings to domestic and foreign investors.**
- ▣ **A desire to jog the multilateral system into faster and deeper action in selected areas by showing that the GATT/WTO was not the only game in town and by creating more powerful blocs that would operate within the GATT/WTO system.**
- ▣ **A desire to help neighbouring countries stabilize and prosper, both for altruistic reasons and to avoid spillovers of unrest and population growth.**
- ▣ **The fear of being left out while the rest of the world swept into regionalism, either because this would be actually harmful to the excluded countries or just because "if everyone else is doing it, shouldn't we?"**

# Some key facts and findings

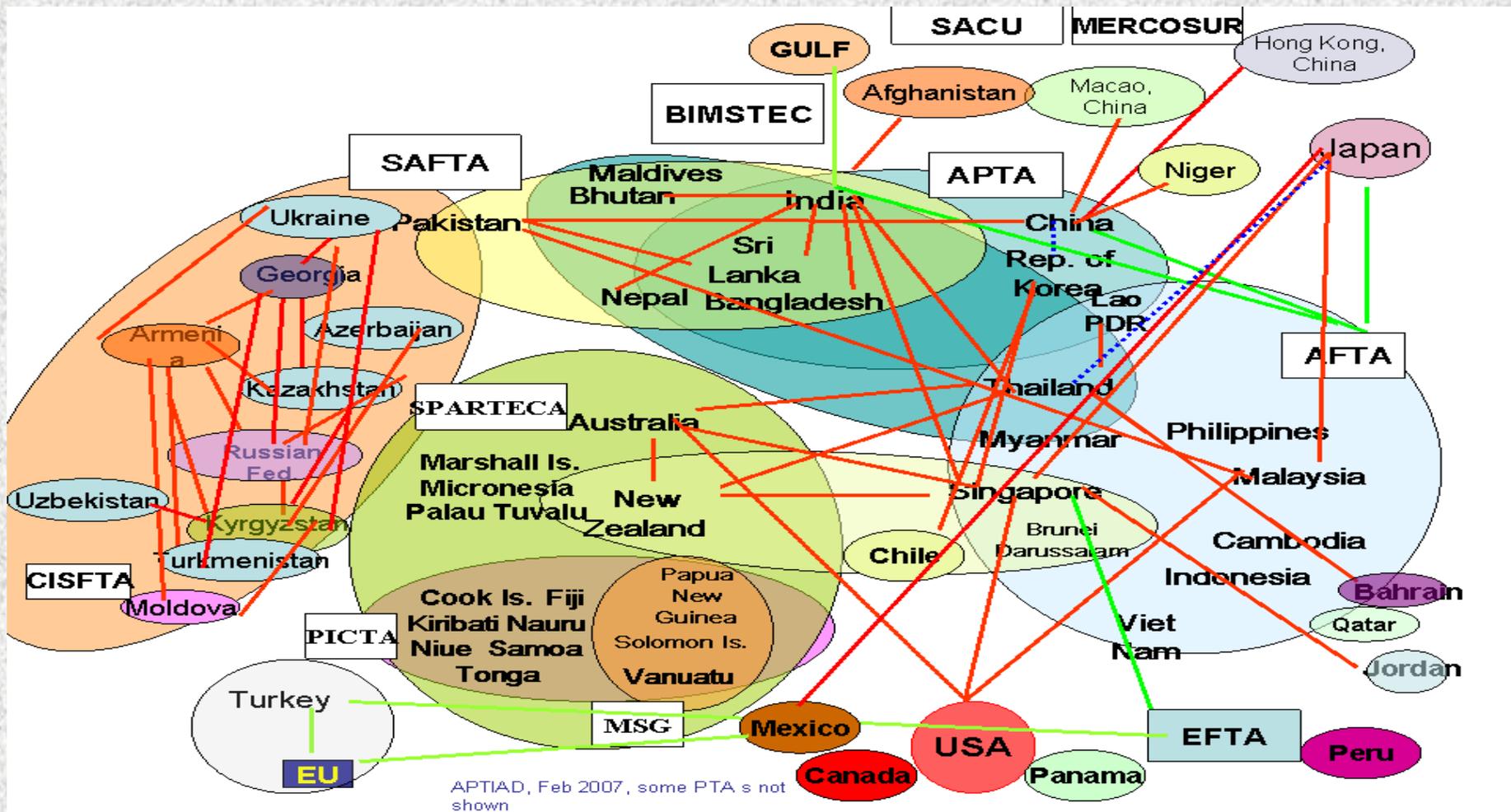
- As of 31 July 2013, some 575 notifications of RTAs (counting goods, services and accessions separately) had been received by the GATT/WTO. Of these, 408 notifications were made under Article XXIV of the GATT 1947 or GATT 1994; 38 under the Enabling Clause; and 129 under Article V of the GATS. Of these 575 RTAs, 379 were in force.
- 13 is the average number of PTAs that a WTO member is party to.
- Only 16 per cent of global merchandise trade receives preferential treatment.
- Less than 2 per cent of world trade is eligible for preference margins above 10 percentage points.

# Global RTA Landscape



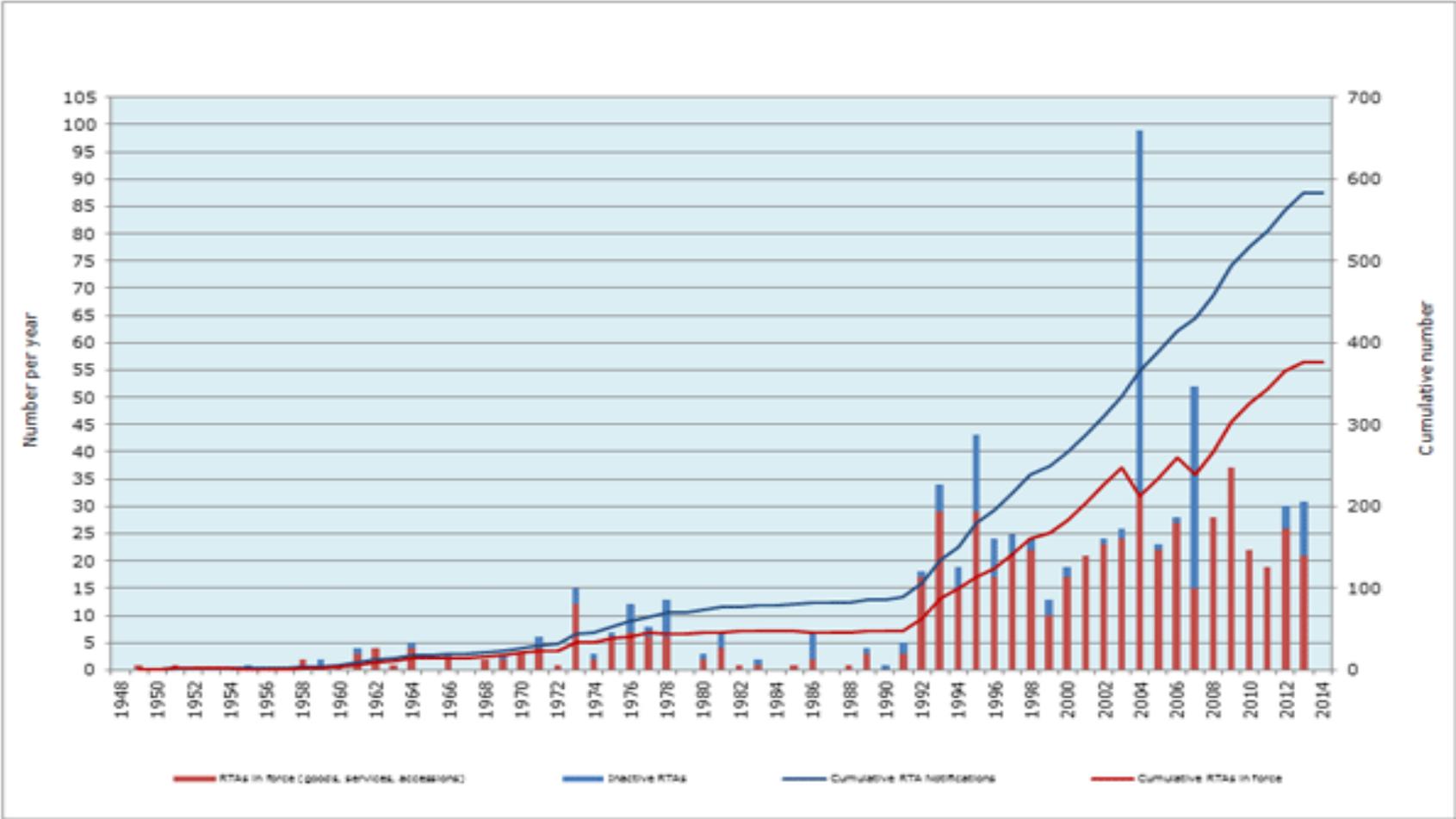
<span style="color: blue;">■</span> NAFTA	<span style="color: cyan;">■</span> EUROPEAN UNION	<span style="color: yellow;">■</span> EFTA	<span style="color: green;">■</span> PAFTA	<span style="color: blue;">■</span> ECOWAS	<span style="border: 1px solid black; display: inline-block; width: 10px; height: 10px;"></span> EAC	<span style="color: brown;">■</span> SAFTA
<span style="color: red;">■</span> CACM	<span style="color: green;">■</span> CARICOM	<span style="color: magenta;">■</span> CEFTA	<span style="border: 1px solid black; display: inline-block; width: 10px; height: 10px;"></span> GCC	<span style="color: orange;">■</span> CEMAC	<span style="color: purple;">■</span> SADC	<span style="color: yellow;">■</span> ASEAN
<span style="color: grey;">■</span> CAN	<span style="color: orange;">■</span> MERCOSUR	<span style="color: lightgreen;">■</span> CIS	<span style="border: 1px solid black; display: inline-block; width: 10px; height: 10px;"></span> WAEMU	<span style="color: red;">—</span> COMESA	<span style="border: 1px solid black; display: inline-block; width: 10px; height: 10px;"></span> SACU	<span style="color: orange;">■</span> PICTA

# RTA bubbles?



(Source: Mikic, Mia (2007): Mapping preferential trade in Asia and Pacific)

# RTAs notified to the GATT/WTO (1948-2014), including inactive RTAs, by year of entry into force



Source: WTO Secretariat

# India's Position

- India has always stood for an open, equitable, predictable, non—discriminatory and rule based international trading system.
- RTAs should not be used as a tool to bypass or subvert the multilateral trading system and force implementation of certain issues which are of concern to the developing countries.
- RTAs should be building blocks, instead of stumbling blocks, for that broader objective and should complement the overall multilateral trading system.

# India in RTAs

- **Strongly supports South-South trade**
  - GSTP, APTA, IBSA
- **Supports Developmental Agenda with its RTA partners – present in all of its RTAs**
  - Less than full reciprocity for LDCs or SVEs (TLP time, percentage coverage, RoO etc.)
  - DFTP Scheme
- **Beneficiary of GSP from EC, USA, Japan etc.**

# DEVELOPMENTS IN 2002

- **Firstly, European Countries were party to over half of the RTAs notified to WTO in 2002. Apart from the admission of 10 new members to the EU in 2004, the EU was seeking greater economic integration with countries in the Balkans, Mediterranean and North Africa.**
- **Secondly, after the completion of NAFTA, the USA took the lead in expanding ties to Central America by proposing for the Free Trade Area of the Americas (FTAA) - plan to unite 34 countries in the western hemisphere.**
- **Thirdly, in the Asia Pacific region, ASEAN was moving to a full FTA by 2010. It was also engaged in FTA negotiations with China, Japan and the Republic of Korea under ASEAN + 3.**
- **If India did not become a member of any major RTA, it would be locked – out of the major markets.**
- **Major shift in India's policy – focus on SAARC, MERCOSUR and ASEAN.**

# India's Current Engagement in PTA/FTA/CECA

## Agreements signed and implemented:

### *Preferential Trade Agreements:*

- Asia Pacific Trade Agreement (1975, revised in 2005)
- GSTP (1988)
- SAPTA (1993)
- India-Afghanistan (2003)
- India – Chile (2007)
- India – MERCOSUR (2008)

# India's in PTA/FTA/ CECA(2)

## **FTA/CECA:**

- India-Sri Lanka (1998)
- India-Nepal-One way FTA (1991/2002)
- India-Bhutan (1995/2006)
- India-Singapore CECA implemented 1.8.2005.
- SAFTA (FTA in Goods-2004 – implemented from 1.1.2006)
- India ASEAN FTA in Goods – 01.01.2010
- India – Korea CECA - 01.01.2010
- India – Japan CECA – February 2011 (signed)
- India – Malaysia CECA – 1.7.2011

# India's Current Engagement in PTA/FTA/ CECA(3)

## *Negotiations going on:*

- India-Thailand (2003-Except EHP)
- **BIMSTEC (2004 - Negotiations at advance stage**
- **India – EU - Negotiations at advance stage**
- **India – EFTA - Negotiations at advance stage**
- India-GCC (2004)
- India – Mauritius
- GSTP (developing countries – UNCTAD)
- APTA ( India, China, South Korea, Bangladesh, Sri Lanka, Lao PDR)
- India – SACU
- India – Malaysia
- India – Indonesia
- India – Australia
- India – New Zealand
- IBSA
- India – Russia
- India – Israel

# CURRENT STATUS

- **The negotiations are continuing for:**
  - **FTA in Goods**
  - **FTA in Services**
  - **Investment Agreement**
  - **Economic Cooperation**
  - **Custom cooperation**
  - **MRAs**
  - **Bilateral Safeguard Mechanism**
  - **GP, CP, TF**
- **Concessions started in 2004 and FTA to be achieved by 2010 - 2017.**

# Negative/Sensitive List

- Agriculture and processed food
- Textiles and apparels
- Automobile and auto components
- Items reserved for SSI
- SME items

# Rules of Origin

- Rules of origin are criteria used to determine the “nationality” of a product i.e. where the product was ‘made’.
- A product’s raw materials or components might come from a number of countries, but customs officials must determine the product’s origin to decide how to treat it, including what tariff to charge, as the product enters their jurisdiction.
- Issue of origin is also important in determining the anti-dumping or safeguard duties, regulate quotas and capturing trade statistics.
- Since the preferential treatment provided for in a FTA is normally granted only to products originating from members to that FTA, rules of origin are therefore an important part of any FTA.

# Preferential Rules of Origin

- **Checking trade deflection of third country goods.**
- **RoO is to facilitate trade between RTA partners only.**
- **Facilitate value addition in the exporting country.**
- **Augmenting intra-regional trade and investment.**
- **Should not be used to impede the trade and therefore should not be too stringent. However, it should not be too liberal so that it can create trade deflection. Therefore, a balance needs to be established.**
- **Simpler to operate – if Origin not from RTA partner - products are allowed for imports on payment of applied MFN duty.**

# Preferential Rules of Origin

- **Three conditions must be fulfilled:**
  - originate in a beneficiary country
  - transported directly
  - valid proof of origin
  
- **Product categories**
  - Wholly obtained or produced
  - Not wholly obtained or produced
  - Products obtained through Regional Cumulation (*not workable under non-preferential RoO*)

# Rules of Origin

- **Components:**
  - ✓ **Local content / value addition ( 30 - 40%)**
  - ✓ **Insufficient manufacturing processes**
  - ✓ **Substantial transformation ( Change at 4 digit HS from inputs to export products)**
  
- **Circumvention of Rules of Origin:-**
  - ✓ **Only Govt. agencies to issue Certificate of Origin**
  - ✓ **Verification procedures laid down**
  - ✓ **Cooperation among customs and certifying agencies**

# India's approach - PTA

- **Components:**

- ✓ **Local content / value addition (40%).**
- ✓ **Insufficient manufacturing processes like simple mixing, cutting, processing etc. disqualified for preferences.**
- ✓ **No strict CTH conditionality – for small list of product with moderate tariff concessions.**

# PTAs: INDIA'S RoO

<b>✘ APTA</b>	-	<b>45%</b>
<b>✘ GSTP</b>	-	<b>50%</b>
<b>✘ SAPTA</b>	-	<b>40%</b>
<b>✘ MERCOSUR</b>	-	<b>60%</b>
<b>✘ India Afghanistan</b>	-	<b>CTH + 40%</b>
<b>✘ India Chile</b>	-	<b>CTH + 40%</b>

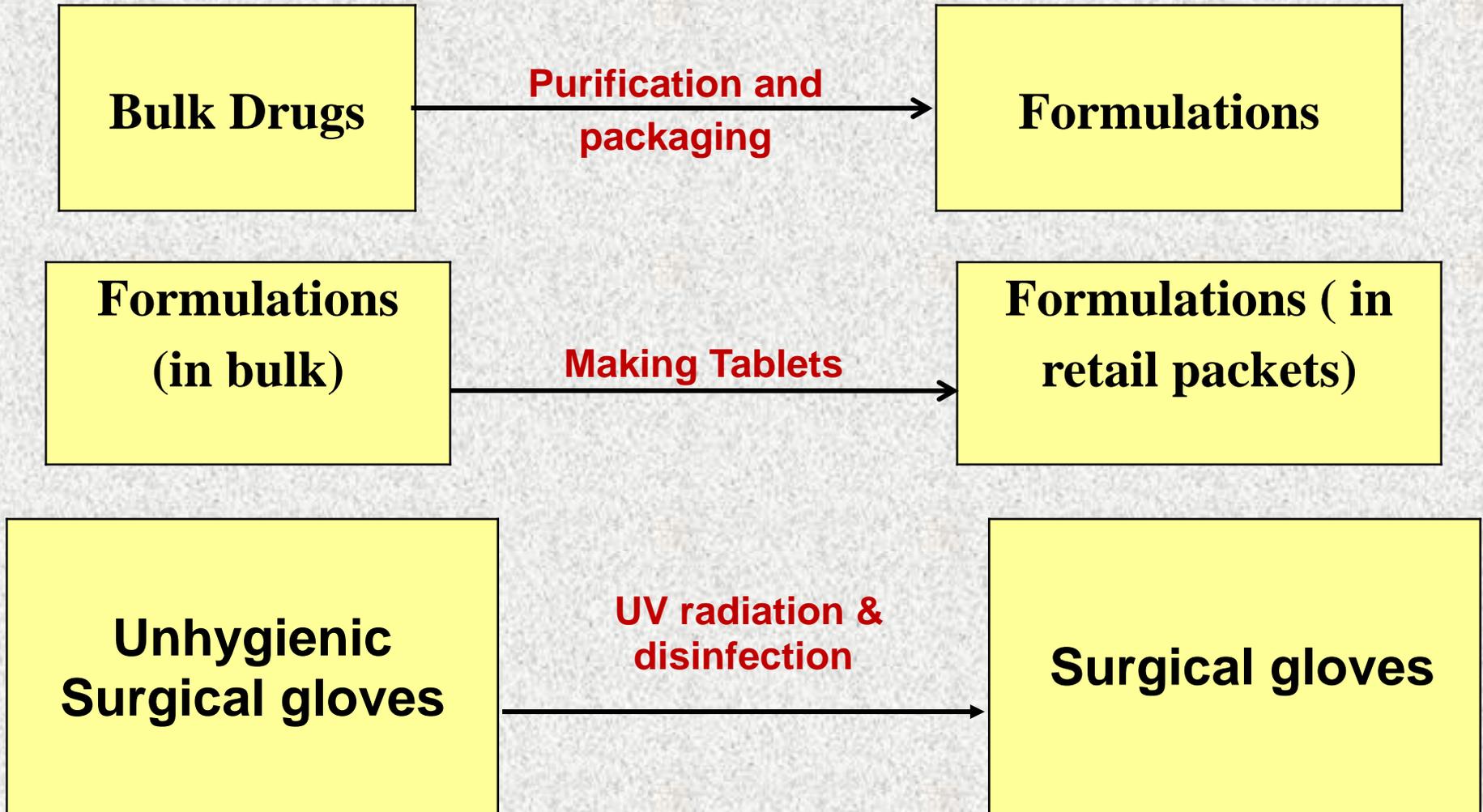
# India's approach - FTA

- **Components:**
  - ✓ **Local content / value addition (35 - 40%).**
  - ✓ **Insufficient manufacturing processes like simple mixing, cutting, processing etc. disqualified for preferences.**
  - ✓ **Substantial transformation (Change at 4 digit HS from inputs to export products – CTH, now going for CTSH as well).**

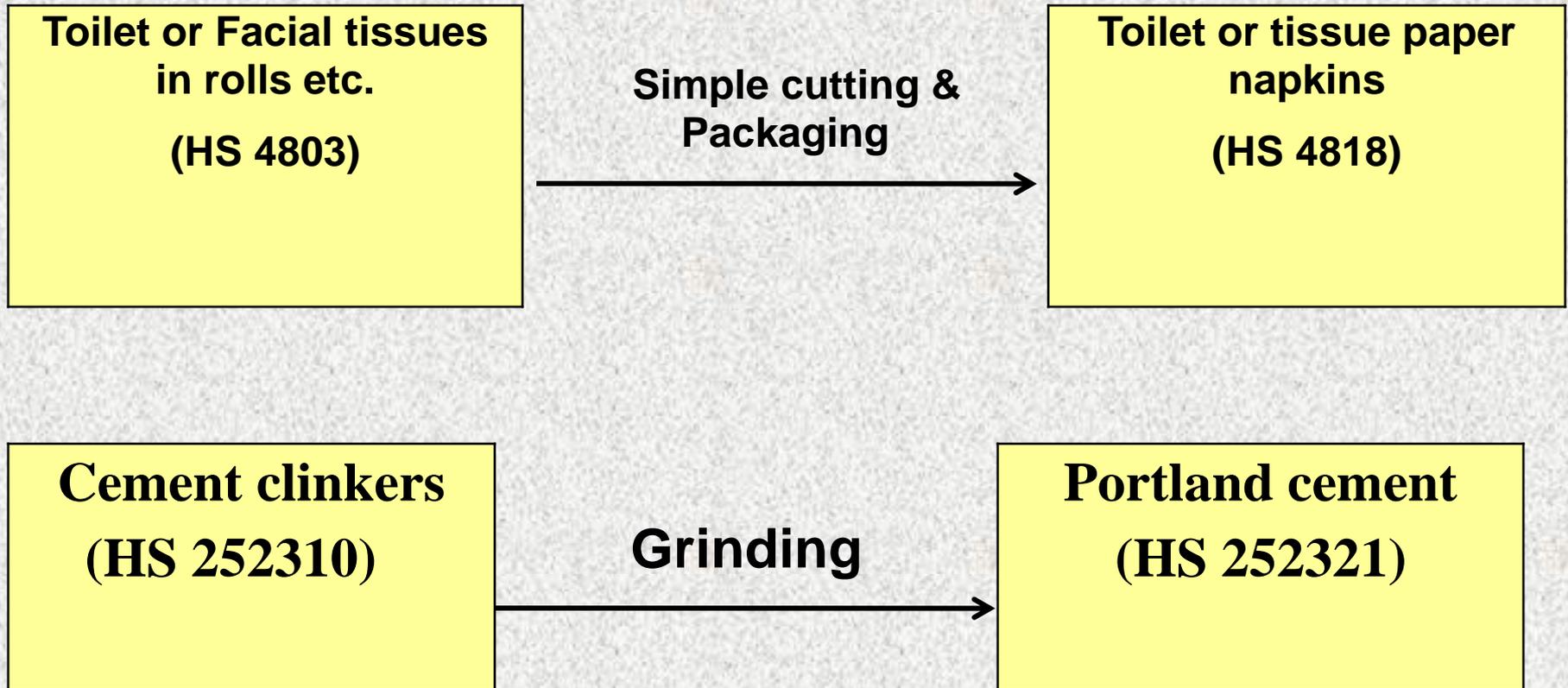
# FTA: INDIA'S RoO

- ✘ INDIA – NEPAL - 30% + CTH
- ✘ INDIA – SRI LANKA - 35% + CTH
- ✘ INDIA – SINGAPORE - 40%+CTH+PSR
- ✘ INDIA – THAILAND - 35%+CTSH+PSR
- ✘ SAFTA - 40/30%+CTH+PSR
- ✘ INDIA – ASEAN - 35%+CTSH+PSR
- ✘ BIMST- EC - 30/35% + CTSH
- ✘ KOREA - 35% + CTSH + PSR
- ✘ Japan - 35% + CTSH + PSR
- ✘ EU - To be decided

# Is value addition alone a good criteria?



# Does CTH always lead to substantial transformation?



# Experiences

## ✘ India Nepal:

- + Coloured films
- + Vanaspati/edible oil
- + Zinc oxide
- + Copper

## ✘ Sri Lanka

- + Ceramic tiles
- + Pepper
- + Copper
- + Vanaspati

# **EXPERIENCES OF FTAs**

**INDIA SRI LANKA**

## Respective Position as trade partner

	1990	1998	2003	2007	2008
<b>India's imports</b>	<b>62</b>	<b>60</b>	<b>44</b>	<b>55</b>	<b>56</b>
<b>India's exports</b>	<b>24</b>	<b>17</b>	<b>13</b>	<b>13</b>	<b>18</b>
<b>Sri Lanka's imports</b>	<b>9</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Sri Lanka's exports</b>	<b>23</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>4</b>

## Share of exports and imports (World & bilateral)

	1990		2003		2007		2008	
	Export	Import	Export	Import	Export	Import	Export	Import
<b>India</b>	<b>0.72%</b>	<b>0.09%</b>	<b>2.01%</b>	<b>0.17%</b>	<b>1.78%</b>	<b>0.20%</b>	<b>1.56%</b>	<b>0.17%</b>
<b>Sri Lanka</b>	<b>1.08%</b>	<b>4.48%</b>	<b>4.95%</b>	<b>16.53%</b>	<b>6.73%</b>	<b>24.43%</b>	<b>5.11%</b>	<b>20.81%</b>

# India's Exports

- The share of India's top 10 exports (2 digit HS) to Sri Lanka was 50% in 2000 and increased to 73% by 2008.
- In the post FTA period, there was a significant export growth in Mineral Fuels (27), Sugar (17), Iron and Steel(72), Cotton(52), Pharmaceuticals(30) and Copper Articles(74).
- **For products like Sugar, Iron & Steel, Paper and Coffee, Tea, there was a significant increase in exports even though they are in SL's Negative list.**
- In fact, India's share in Sri Lanka's world imports increased between 2000 and 2008. This would mean that even without tariff concessions, exports have increased for these products. Between 2000 and 2008, the increase in India's share is as follows:
  - Sugar : from 38% to 75%;
  - Iron & Steel: from 36 % to 38%;
  - Paper: 16% to 19%;
  - Copper : from 8% to 62% and
  - Cofee, Tea: 63% to 60%. (decline)

## India's Top Export to Sri Lanka and World (Million US \$)

HS Code	Product Description	2000		2005		2008	
		SL	World	SL	World	SL	World
27	Mineral fuels, oils & products thereof <b>(partial NL)</b>	0.3 (00)	1,442.7	615.7 (6)	10,498.5	1017.3 (3)	32,868.4
87	Vehicles , railway, tramway etc. <b>(NL)</b>	79.4 (9.3)	853.1	291.7(9)	3,204.9	250.6 (4)	6,017.6
17	Sugars and sugar confectionery <b>(NL)</b>	49 (48)	121.2	110.1(65)	169.2	154.8 (10)	1556.3
72	Iron and steel (Most lines TC)	44.3(4)	1,175.1	91(2)	4,333.7	149.5 (2)	8,198.7
52	Cotton (TC)	66.7 (3)	2445.5	91(3)	2995.7	149.4 (3)	4547.6
30	Pharmaceutical products (All TC except 3005)	34 (3.5)	959.7	62.2(3)	2453.6	90 (2)	5003.7
84	Nuclear reactors, boilers, machinery etc. (Partial NL)	26.2 (2)	1,227.4	65.7(2)	4,059.6	70.6 (1)	8,073.1
48	Paper & paperboard; articles of paper pulp etc. <b>(Most NL)</b>	22.8 (13)	181.6	43.8 (11)	413.3	61.7 (11)	573.3
74	Copper and articles thereof (Most TC)	2.3(1)	166.5	40.4 (3)	1526.6	60.4 (3)	2323.9
9	Coffee, tea, mate and spices <b>(NL)</b>	13.5 (2)	703.2	23.6 (3)	908.6	60 (4)	1746.0

Source: WITS

# India's Imports

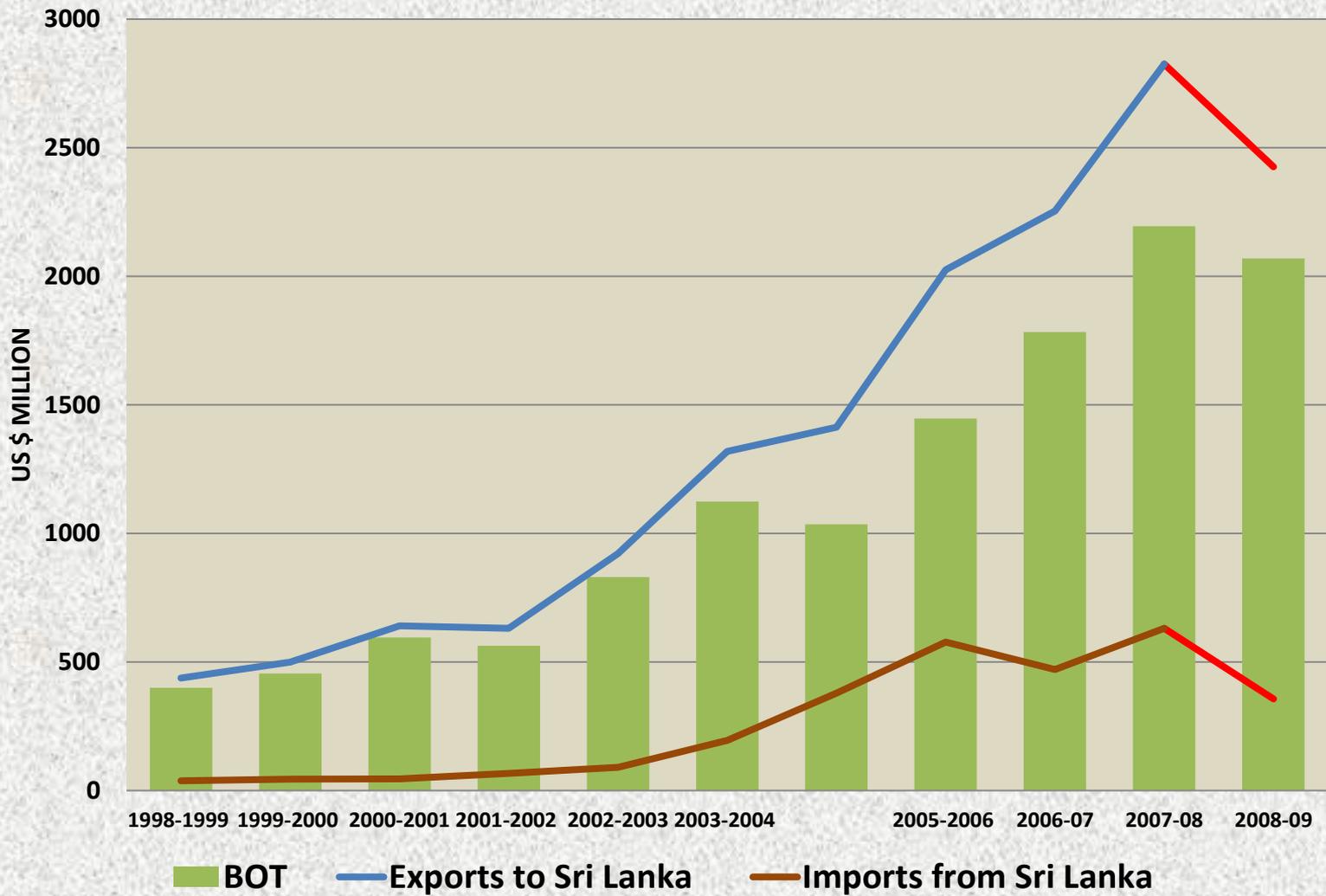
- Compared to exports, India's imports from Sri Lanka are limited.
- In the post FTA years, imports rose significantly for Coffee, Tea & Spices, Electrical machinery, Food residues, Vegetable fats, Rubber articles and Pulp of wood. **However, when compared to India's imports from world, this growth is insignificant.**
- The products where Sri Lanka's share in India's world imports increased are : Coffee, Mate and Spices, Food Residues and Rubber articles.
- India's imports basket from SL has changed over time.
  - In 2003, it comprised mainly of copper & its articles, tea, coffee & mate, electrical products, nuclear reactors & boilers and iron & steel.
  - In 2008, it comprised of animal & vegetable fats & oils, wastes of food, tea, coffee & mate, ships, boats & floating structures, electrical machinery.
- Both sides thus have been able to diversify their export products.

## India's Top Import from Sri Lanka and World (Million US \$)

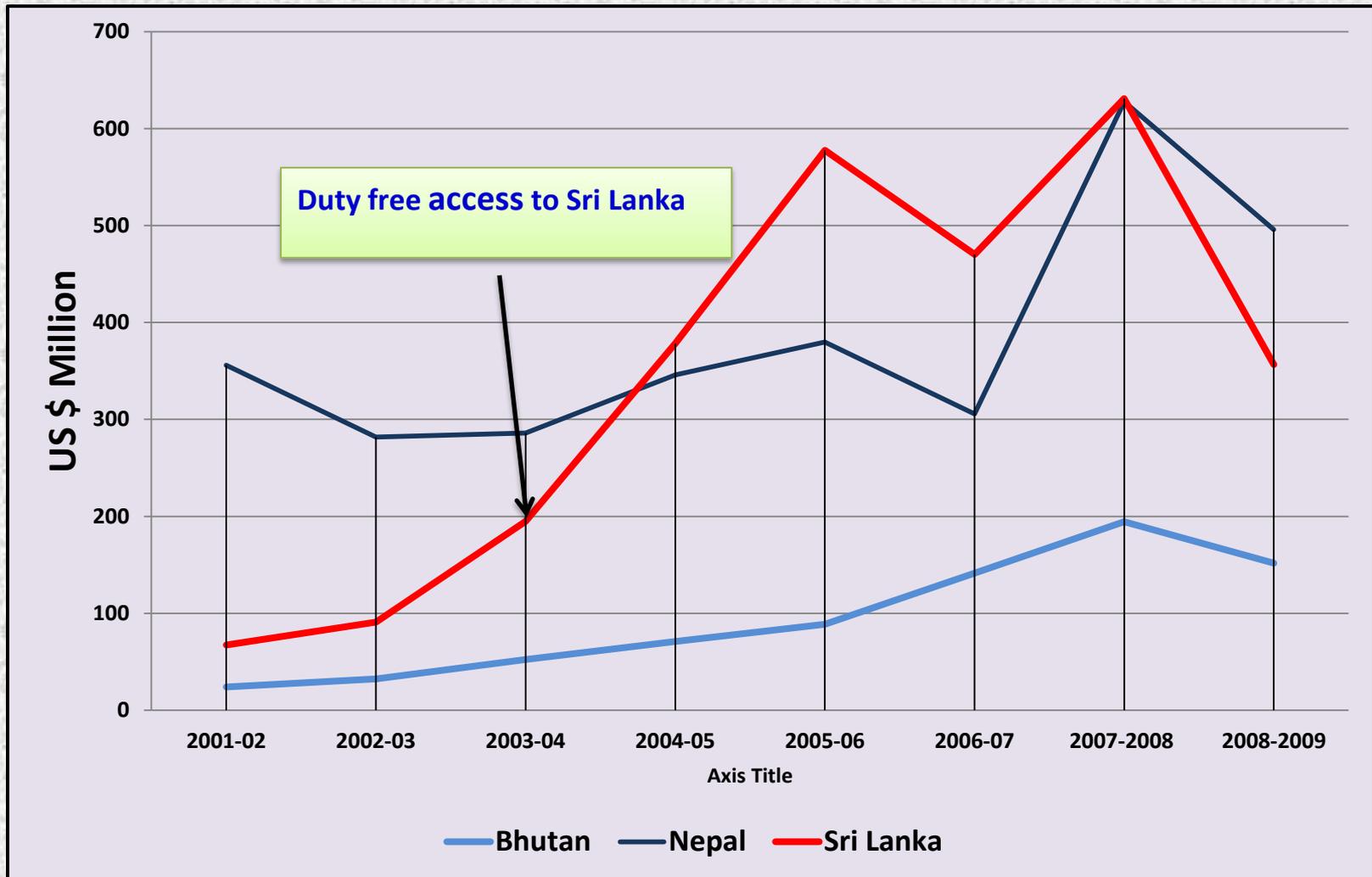
Sector	Product Description	2000		2005		2008	
		SL	World	SL	World	SL	World
89	<b>Ships, boats and floating structure (100% TC)</b>	0.1 (0)	340.9	0.6 (0)	2722.1	164 (3.4)	4808.5
9	<b>Coffee, tea, mate and spices. (TRQ &amp; TC)</b>	12.2 (21)	57.9	45.2 (24)	191.7	55.5 (20)	277.5
85	<b>Electrical machinery equipments parts thereof (100% TC)</b>	0.4 (0)	2,692.2	24.7 (0.2)	11,072.6	43.7 (.3)	16,097.6
15	<b>Animal/vegetable fats &amp; oils &amp; their constituents (TC - TRQ)</b>	2.3 (.2)	1439.5	131.1 (5.7)	2302.1	38.4(1)	3165.2
23	<b>Residues &amp; waste from the food industry (100% TC)</b>	0.7 (1.5)	28.2	1.5 (2)	96.6	33.8 (26)	128.7
40	<b>Rubber and articles thereof. (NL)</b>	0.8 (0.3)	288.2	8.5 (1.1)	744.1	32.3 (2)	1815.2
84	<b>Nuclear reactors, boilers, machinery (100% TC)</b>	2.1(0)	4308.3	27.8 (.2)	13970.3	19.2 (0.1)	27890.1
47	<b>Pulp of wood/of other fibrous cellulose (100% TC)</b>	2.6 (.9)	287.0	9.1 (2)	575.3	18.5 (2.1)	865.7
74	<b>Copper and articles thereof (100% TC).</b>	1.1(.5)	235.4	153.3 (17)	889.5	16.2 (1.1)	1458.1
71	<b>Natural/cultured pearls, precious stones (100% TC)</b>	0.3 (0)	9859.4	2.6 (0)	20764.9	13.8 (0.0)	35093.3

Source - WITS

# INDIA'S TRADE WITH SRI LANKA



# INDIA'S IMPORTS : EFFECT OF FTA ON MARKET ACCESS



# Issues

- **Vanaspati**
- **Copper**
- **Pepper**
- **Import tax by Government of Tamil Nadu**
- **Customs cooperation**
- **Tea: Joint export strategy by Tea Boards**
- **MRAs**
- **Reduction of duties on Cement by SL**

## **UNCTAD Report on India – Sri Lanka free trade agreement and FDI**

**Free Trade Agreement gives duty-free market access to India and Sri Lanka on a preferential basis. Covering 4,000 products, it foresaw a gradual reduction of import tariffs over three years for India and eight years for Sri Lanka.**

**To qualify for duty concessions in either country, the rules of origin criteria spelled out value added at a minimum of 35% for eligible imports. For raw materials sourced from either country, the value-added component would be 25%.**

**The effect? Sri Lankan exports to India increased from \$71 million in 2001 to \$168 million in 2002. And India's exports to Sri Lanka increased from \$604 million in 2001 to \$831 million in 2002. Although the agreement does not address investment, it has stimulated new FDI for rubber-based products, ceramics, electrical and electronic items, wood-based products, agricultural commodities and consumer durables. Because of the agreement, 37 projects are now in operation, with a total investment of \$145 million.**

**Source: WIR (2003)**

**THANK YOU**