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# **REGIONAL TRADE AGREEMENTS AND RULES OF ORIGIN**

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# **PRESENTATIONS STRUCTURE**

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- ▣ **Legal framework - WTO Rules**
- ▣ **Some facts on RTAs**
- ▣ **India's RTAs**
- ▣ **Rules of Origin**

# **BASIC GATT PRINCIPLES**

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- × MFN (Most Favoured Nation Treatment)**
- × TRADE TO BE REGULATED BY CUSTOMS DUTY ONLY**
- × DUTIES TO BE BOUND**
- × NATIONAL TREATMENT**

# GATT RULES

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- × Permitted under Article XXIV of GATT 1994.
- × Exception to MFN treatment within the Rules subject to fulfillment of conditions:
  - + Duties and other restrictive regulations of commerce are eliminated on **substantially all the trade** between the originating products of the constituent territories
  - + the phase out of duties should be **within a reasonable length of time**.
  - + the **purpose** of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and **not to raise barriers to the trade of other contracting parties** with such territories.
  - + **Enabling Clause Decision – flexibility.**

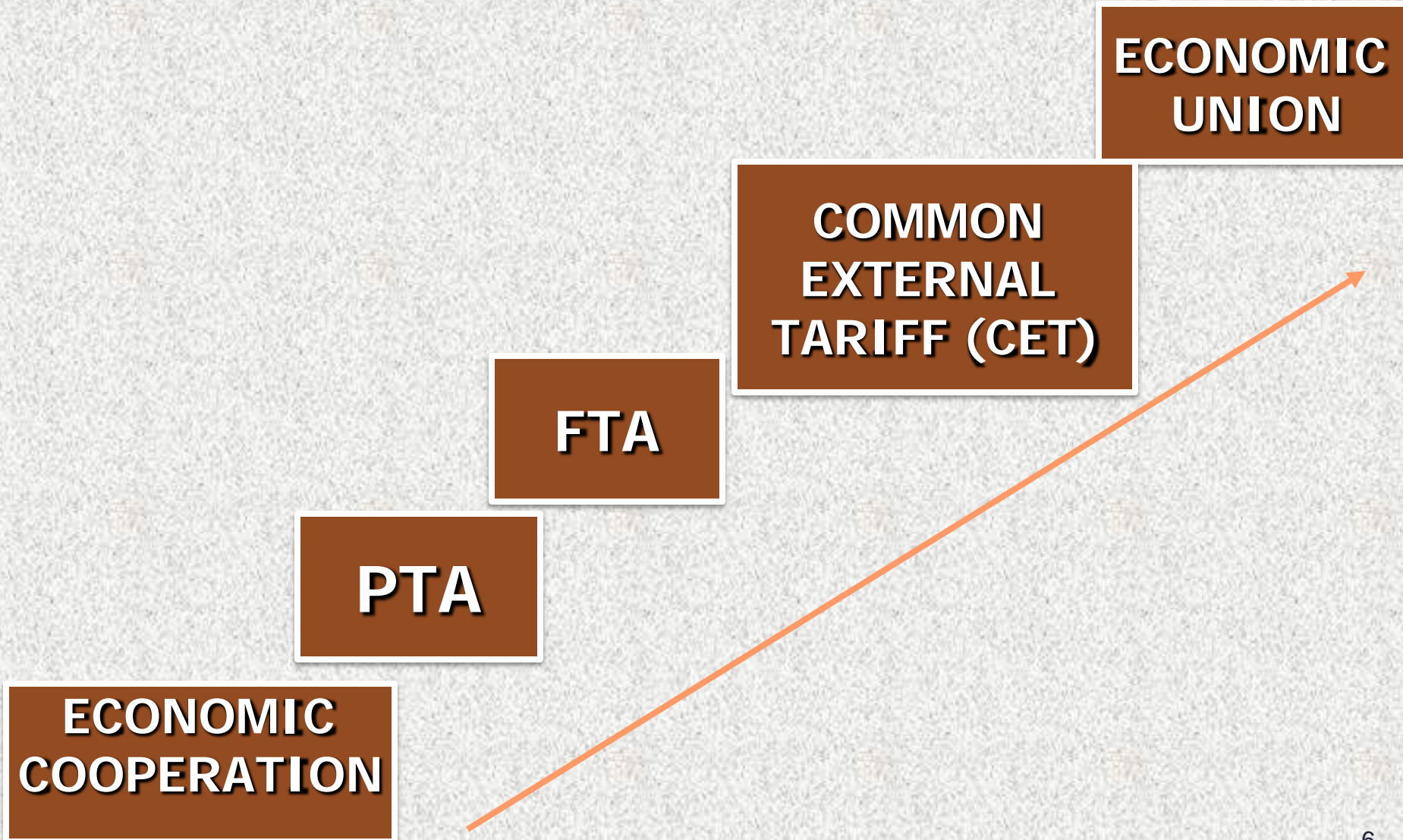


# TERMINOLOGY

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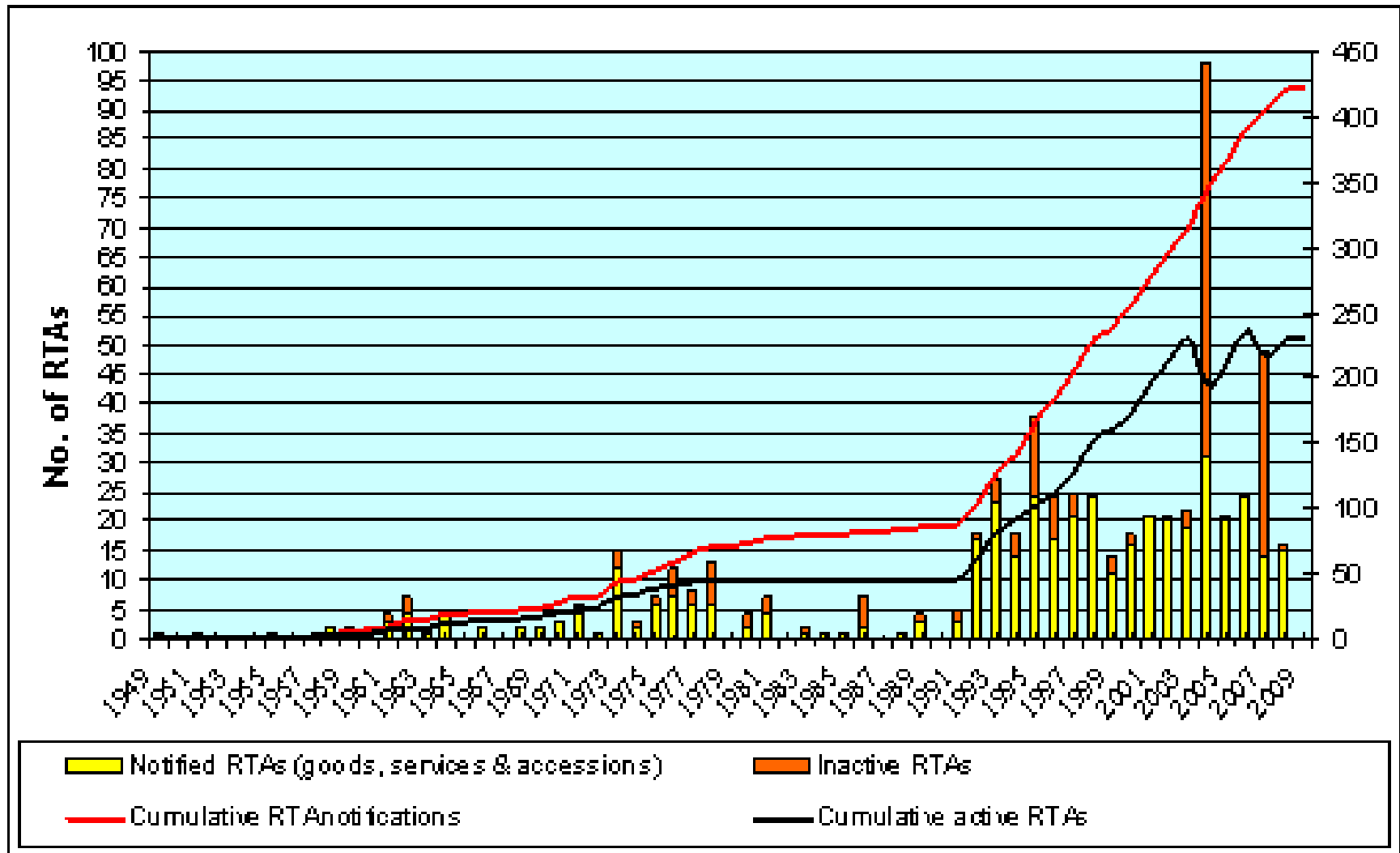
- ▣ **PTA** – Grant of partial preference on reciprocal basis (Preferential Trade Area) or one-way concessions (GSP). No coverage of substantial trade, no time-frame to eliminate tariffs. Concessions enlarged through different Rounds of negotiations.
- ▣ **FTA** – Eliminate all tariffs, QRs on SAT and within fixed time-frame. Varying levels of tariffs and other barriers are maintained against non-members.
- ▣ **Customs Union** – Setting up a common level of trade barriers vis-à-vis non-members/outside.
- ▣ **Common Market** – Deeper integration where free movements of factors of production: labour and capital are allowed, beyond free exchange of goods and services.
- ▣ **Economic Union** – Goes beyond Common Market. Involves harmonizing national economic policies, including typically taxes and a common currency.

# STAGES OF ECONOMIC DEVELOPMENT



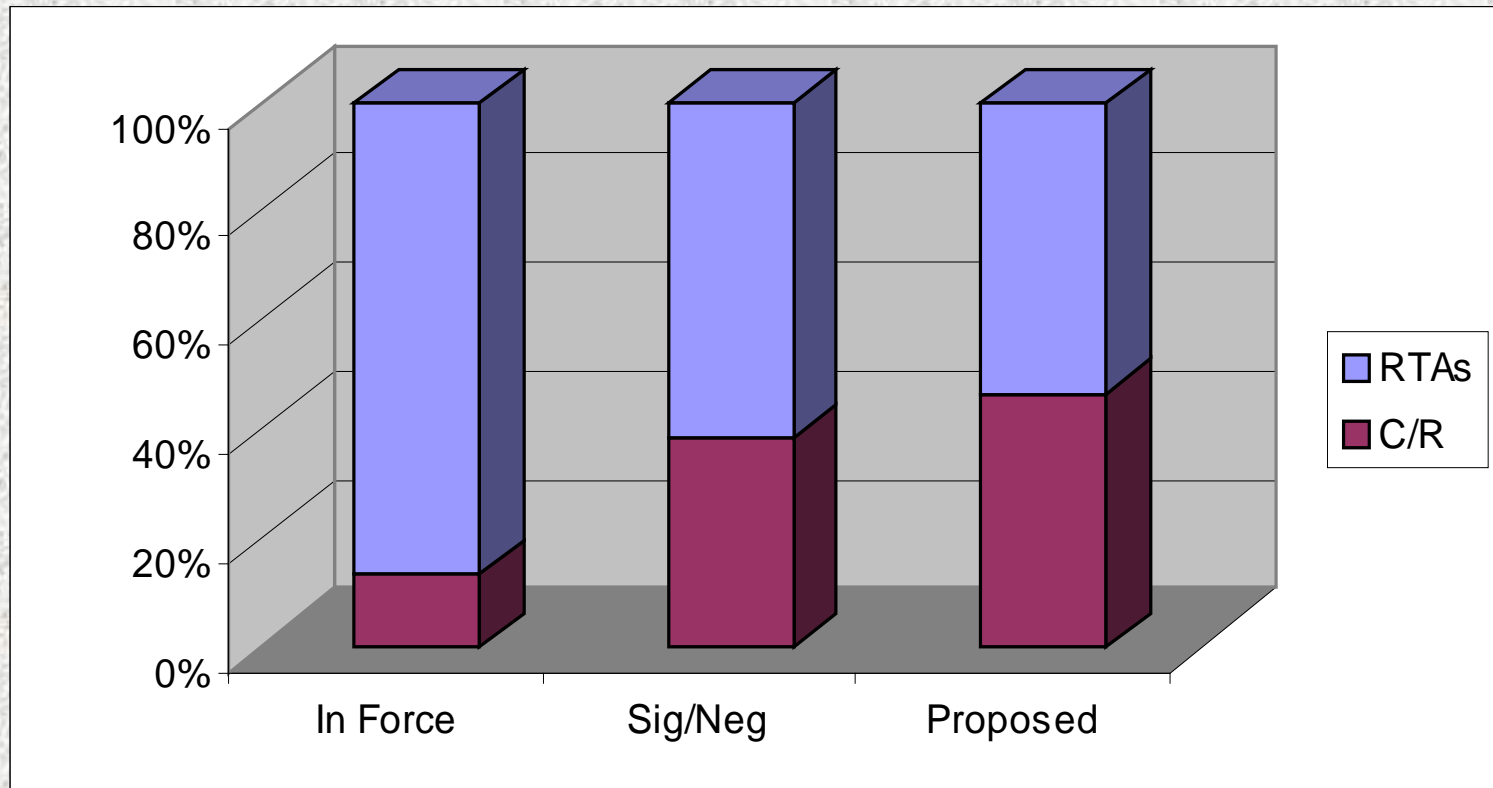
# RTAs ON RISE

(SOURCE: WTO SECTT.)



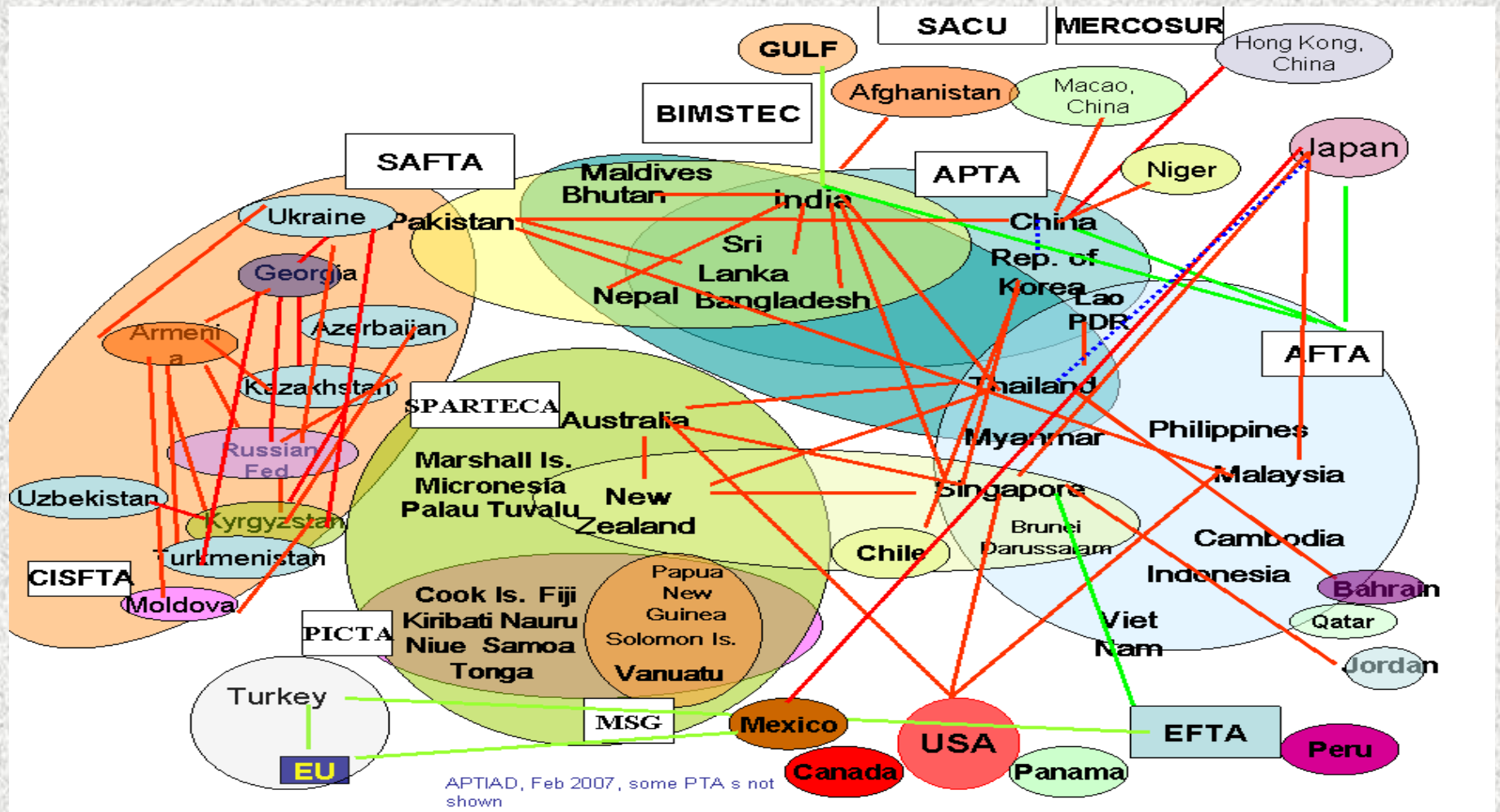
# Cross Regional RTAs are a growing phenomenon

(Source: WTO)





# RTA BUBBLES?



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

# **REGIONAL TRADING ARRANGEMENTS : ECONOMIC RATIONALE**

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- × 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

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- ▣ 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 spillover 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?"



# INDIA'S POSITION

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- × 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 and should complement the overall multilateral trading system.

# OPTIONS FOR INDIA

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- Limited approach did not help in:
  - Boosting exports
  - Transfer of technology
  - Investment inflows
  - In this regard, special focus was given to SAARC, ASEAN and MERCOSUR.
  - It was realised that without participation in RTAs, India would be effectively locked out of major emerging markets.



# INDIA'S CURRENT ENGAGEMENT IN PTA/FTA/CECA

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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 CURRENT ENGAGEMENT IN PTA/FTA/ CECA(2)

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## *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 CEPA - 2011
- India – Malaysia CECA - 2011

# INDIA'S CURRENT ENGAGEMENT IN PTA/FTA/ CECA(3)

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## *Negotiations going on:*

- India-Thailand (2003-Except EHP)
- BIMSTEC (2004)- Goods agreement almost complete.
- India-GCC (2004)
- India – Mauritius
- **India – EU**
- **India – EFTA**
- GSTP (developing countries – UNCTAD)
- APTA ( India, China, South Korea, Bangladesh, Sri Lanka, Lao PDR)
- India – SACU
- India - Indonesia
- India – Australia
- India – New Zealand
- **IBSA**

# CURRENT STATUS

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- ✘ The negotiations are continuing for:
  - FTA in Goods
  - FTA in Services
  - Investment Agreement
  - Economic Cooperation
  - Custom cooperation
  - MRAs
  - Bilateral Safeguard Mechanism



# RULES OF ORIGIN

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- **Objectives:**
  - ✓ to prevent trade deflection, transshipment
  - ✓ enhance intra-regional trade & investment
  - ✓ transparent
- **Classification of products**
  - ✓ Wholly obtained or produced
  - ✓ Not wholly obtained or produced
  - ✓ Products obtained through regional cumulation



# RULES OF ORIGIN

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## × Components:

- ✓ Local content / value addition ( 30 - 40%)
- ✓ Insufficient manufacturing processes
- ✓ Substantial transformation ( Change at 4 digit HS from inputs to export products)

## × Anti circumvention features of Rules of Origin:-

- ✓ Only Govt. agencies to issue Certificate of Origin
- ✓ Verification procedures laid down
- ✓ Cooperation among customs and certifying agencies

# TRADE DEFENCE MEASURES

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- × Anti-dumping provisions - as per WTO Rules.
- × Safeguard provisions - as per WTO Rules.
- × Additional safeguard provisions prescribe for modifying or withdrawing the tariff concessions due to surge in imports on account of tariff concessions.

# INDUSTRY'S PREPAREDNESS

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- × Who sets the agenda for negotiations?
- × To help successfully in policy making process
- × Feedback during negotiations
- × After implementation:
  - + Trade defense measures
  - + Circumvention
  - + Any other issue.

**Thank You**