

Trade Alert

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INDIA MAY REVIEW FREE TRADE AGREEMENT WITH THAILAND

The Ministry of Commerce revealed that India has requested a review of the long pending negotiation for a Free Trade Agreement (FTA) with Thailand and may consider withdrawing some products from the FTA in order to reduce trade deficits with Thailand. Gold will likely be the first among the items to be excluded from the FTA.

After the FTA between the two countries was signed in 2003, trade between Thailand and India has grown continuously, but this has caused huge trade deficits for India. Thai exports to India were valued at \$5.4 billion in 2013, while imports during the same period were valued at \$3.4 billion. In order to reduce such trade deficits, India has requested that Thailand review the FTA and is also considering withdrawing some products from the FTA, with gold likely to be excluded due to the problem of rule of origin circumvention.

The Thai Ministry of Commerce (MOC) revealed that the Directorate of Revenue Intelligence (DRI) under India's Finance Ministry, which controls import inspections and control of illegal goods, wants India to review its FTA with many countries, including Thailand. The agency has proposed increasing the power of the tax collection agency to ban any imports under the FTAs automatically and with immediate effect if it discovers any problems, such as the rule of origin circumvention, especially in the case of significant exports of gold from Thailand.

According to the Minister of Commerce, Indian people favor Thai gold ornaments because of the good quality and beautiful designs. With the low tariff, the demand for Thai gold in India is high. India has levied a low import tariff on Thai gold of only 1.01 per cent, while the normal tariff is 15 per cent. This has led to some traders using this opportunity to export gold under the Thailand-India FTA by circumventing or falsifying the rule of origin. However, India has already resolved such problems by suspending the duty exemption on gold imported from Thailand under the Thai-India FTA since February 2013, claiming that the rules of origin were unclear and questionable. However, the suspension was implemented without consultation with Thailand even though the Thai-India FTA requires a co-consultation prior to taking any measures to resolve disputes of origin. The suspension caused gold exports from Thailand to drop sharply by 90% in 2013. Thailand's export of gold to India in 2012 was \$123.95 million but this figure fell dramatically to only \$1.48 million in 2013.

To ensure that exports of Thai gold to India do not face any problems, the Minister of Commerce advised Thai traders and manufacturers to comply stringently with the Thai-India FTA rules of origin so that the rule of origin circumvention shall not be used as a reason to request any the review of free trade agreement with Thailand.

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