

Dossier on Preferential Trade Agreements

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1. Korea, Colombia conclude free trade deal

The leaders of Korea and Colombia announced that the two countries had finished the negotiations for a free trade agreement (FTA). The deal needs to be approved by the legislatures of two countries. The two governments expected the pact will probably go into effect in the first half of 2013 after approval by their respective parliaments. The announcement came shortly after President Lee Myung-bak, who is on a trip to North and South American countries, held a summit with President Juan Manuel Santos of Colombia. The comprehensive accord covers 22 sectors, including commodities, trade, investments, services and intellectual property rights. The two sides will be able to lift more than 96 percent of tariffs within 10 years if the pact goes into effect. Trade Minister Bark Tae-ho who accompanied President Lee told reporters that the trade deal will further open the door to Latin American markets.

“South Korea will export commodities to Colombia, while importing raw materials and natural resources. The two economies are complimentary,” he said. It has taken two and a half years for the two countries to strike the deal. Beef was a major stumbling block, according to those who are familiar with the negotiations. The effectuation of the pact, analysts say, will have South Korean cattle raisers inevitably suffer as the country will import cheap Colombian beef. South Korea agreed to import boneless beef cuts during the tough negotiations.

But Trade Minister Bark tackled this, saying the negative effect was, to some degree, exaggerated. Bark said first of all, South Korea toughened customs regulations during the negotiations. He also emphasised that the 19-year period until tariffs are to be completely abolished is long enough for cattle farmers here to brace for the possible negative fallout on their income. The trade minister noted Colombia is not a major beef exporter.

South Korea currently imports most beef from Australia and the US. Rice, one of the sensitive areas for South Korean farmers, was not included in the trade accord. Trade experts predicted bilateral trade will soar if the deal takes effect after the parliaments of the two countries ratify it. In 2011, bilateral trade hit approximately US\$2bn, a sharp increase from 2006 when it marked only US\$1.1bn. Colombia is the fourth largest economy, as well as the third most populated country in Latin America. It was the only country that sent troops to South Korea during the Korean War (1950-53). South Korea has signed the free trade agreement with several nations including the US, the EU and Chile.

<http://www.bilaterals.org/spip.php?article21705>

CUTS Comments

India's exports to Colombia were valued at approximately US\$975.6mn in 2011. In the same year, Korea's export to Colombia was more than 1.7 times that of India, and was valued at US\$1613.9mn. However, trade statistics clearly demonstrate that six product categories in the Korea's top ten products compete with exports from India. These include vehicles other than railway, tramway; plastics and articles thereof; iron and steel; electrical, electronic equipment; miscellaneous chemical products; and Organic chemicals. Data also show that out of these six product categories, Korea has visible edge in two categories – organic chemicals and Articles of iron or steel – as exports in these categories grew at a much faster pace than that of exports from India during the period 2007-2011. Categories in which India has clear relative advantage include electrical, electronic equipment, miscellaneous chemical products, and plastic and articles thereof.

The new agreement between the two countries could impact these six product segments adversely. In other non-competing segments, the new trade agreement might have little impact and will not lead to any significant trade diversion. (See the table 1.1 for a list of top export items in value terms).

India's exports to Colombia (Exports in 2011: US\$975.6mn)			Korea's exports to Colombia (Exports in 2011: US\$1613.9 mn)		
<i>Product</i>	<i>Export value in 2011 (US\$mn)</i>	<i>Annual average growth in % (2007-2011)</i>	<i>Product</i>	<i>Export value in 2011 (US\$mn)</i>	<i>Annual average growth in % (2007-2011)</i>
Commodities not elsewhere specified	263.2	18	...	...	...
Cotton	102.3	31	...	...	...
Vehicles other than railway, tramway	100.3	3	Vehicles other than railway, tramway	900.2	8
Organic chemicals	72.7	9	Organic chemicals	34.7	28
Manmade staple fibres	55.5	39	...	...	...
Electrical, electronic equipment	49.3	23	Electrical, electronic equipment	41.6	-16
Pharmaceutical products	46.7	13	...	...	...

Miscellaneous chemical products	41.9	82	Miscellaneous chemical products	25.6	14
Iron and steel	37.5	14	Iron and steel	62.7	12
Plastics and articles thereof	28.2	40	Plastics and articles thereof	127.2	10
Top 10 products (% of total exports)	797.6 (82)		Machinery, nuclear reactors, boilers, etc.	226.2	32
			Rubber and articles thereof	48.4	21
			Articles of iron or steel	32.3	61
			Optical, photo, technical, medical, etc. apparatus	17.7	13
			Top 10 products (% of total exports)	1516.7 (94)	

Source: ITC data base

India's exports to Korea were valued at approximately US\$7893.6mn in 2011. In the same year, Colombia's export to Korea was around three percent that of India, and was valued at US\$276.2mn. Considering the huge gap between exports of these two countries to Korea, it appears that there is not much competition between Indian and Colombian products in the Korean market. Even though, it is observed that three products from Colombia directly compete with exports from India, but in terms of value, the competition faced by the Indian products looks negligible. In all the competing products segments – mineral fuels, oils, distillation products, etc.; iron and steel; aluminum and articles thereof – value of Indian exports far exceeds that of exports from Colombia.

Moreover, in segments such as organic chemicals, cotton, residues, wastes of food industry, animal fodder, ores, slag and ash, zinc and articles thereof, machinery, nuclear reactors, boilers, etc. and pearls, precious stones, metals, coins, etc., there is no competition from Colombia for Indian products in the Korean market. Based on the nature of competition between products from India and Colombia, it can be said that the new agreement between Korea and Colombia might not lead to any significant trade diversion. In addition, the existing India Korea bilateral trade agreement can help India ward off any such adverse impact. (See the table 1.2 for a list of top export items in value terms).

Table 1.2					
India's exports to Korea (Exports in 2011: US\$7893.6mn)			Colombia's exports to Korea (Exports in 2011: US\$276.2mn)		
Product	Export value in 2011 (US\$mn)	Annual average growth in % (2007-2011)	Product	Exported value in 2011 (US\$mn)	Annual average growth in % (2007-2011)
Mineral fuels, oils, distillation products, etc.	4672.6	10	Mineral fuels, oils, distillation products, etc.	49.2	

Iron and steel	479.5	10	Iron and steel	56.1	21
Organic chemicals	461.7	15	...	...	...
Cotton	320.5	14	...	...	...
Residues, wastes of food industry, animal fodder	213.4	-8	...	...	...
Ores, slag and ash	211.9	-3	...	...	...
Aluminium and articles thereof	209.1	137	Aluminium and articles thereof	11.1	32
Zinc and articles thereof	135.9	213	...	...	...
Machinery, nuclear reactors, boilers, etc.	124.5	-4	...	...	...
Pearls, precious stones, metals, coins, etc	103.6	-13	...	...	...
Top 10 products (% of total exports)	6932.72		Coffee, tea, mate and spices	97.1	33
	6 (88)		Copper and articles thereof	37.6	3
			Miscellaneous edible preparations	5.3	32
			Miscellaneous chemical products	5.2	289
			Pharmaceutical products	3.7	
			Raw hides and skins (other than furskins) and leather	2.6	36
			Sugars and sugar confectionery	1.7	64
			Top 10 products (% of total exports)	269.6	
				(98)	

Source: ITC data base

Food for Thought

There are some sectors such as pharmaceuticals, spices in which India has comparative advantage globally. Considering that such products do not constitute India's exports to Korea and since Colombia is exporting these products to Korea, should Indian companies invest in these sectors in the Korean market? Will such investment ward off competition to India exports in the Korean market?

2. Free trade agreement with Malaysia opens up education, telco sectors

Malaysia and Australia signed a FTA that will allow Malaysia to export all goods duty-free into Australia once the deal comes into force on January 01, 2013. In return, Australian exporters will enjoy a reduction of up to 99 percent on goods tariffs by 2020, Malaysia's Minister of International Trade and Industry, Mustapa Mohamed, said.

Some of the tariff reductions given to Australia have not been granted to any of Malaysia's other FTA partners, he added. Malaysia will also allow Australian companies to hold 100 percent equity in private higher-education services and telecommunications companies, as well as up to 70 percent equity in insurance and investment banking firms once the agreement is in effect, Mustapa said.

Australia, meanwhile, will be committed to allowing Malaysian participation in hospital services. It will also help Malaysian companies set up traditional and complementary medicine services. The agreement, for which negotiations began in 2005, is Malaysia's sixth bilateral FTA after its deals with Japan, Pakistan, New Zealand, Chile and India. While Malaysia has also signed off on the Asean-Australia New Zealand FTA, the new agreement will let it export goods tax-free into Australia earlier, Mustapa said. Under the Asean-Australia New Zealand FTA, Australia will only eliminate taxes on goods from the Association of Southeast Asian Nations by 2020.

Australia, whose nearly US\$1.5tn economy is about six times larger than Malaysia's, is among the Southeast Asian country's 12 largest trading partners, with total trade amounting to US\$12.4bn (US\$12.5bn) at the end of 2011. Malaysia was Australia's 10th largest trading partner in 2011.

<http://www.bilaterals.org/spip.php?article21527>

CUTS Comments

In 2011, total value of exports from India to Malaysia was US\$3327.8mn. In the same year export from Australia to Malaysia was valued at US\$4666.8mn. An examination of the export baskets of the two countries reveals that India and Australia have competitive interest in at least five product segments in the Malaysian market. The two countries compete with each other in meat and edible meat offal, machinery, nuclear reactors, boilers, etc., mineral fuels, oils, distillation products, etc., iron and steel and cereals. In value terms, the conflicting products constitute about 55 percent of the total value of top ten products from Australia. More importantly, in two out of five competing products, Australia has definitive edge over India (a comparative list of India's and Australia's top 10 products constituting more than 65 percent of exports from both the countries to Malaysia in value terms is given in the table 2.1).

However, there is scope of warding off such adverse impact on exports from India, as there exists a FTA between India and Malaysia signed in early 2011. It can, therefore, be argued that the overall chance of trade diversion as a result of trade agreement between Australia and Malaysia is very low.

Table 2.1					
India's exports to Malaysia (Exports in 2011: US\$3327.8mn)			Australia's exports to Malaysia (Exports in 2011: US\$4666.8mn)		
<i>Product</i>	<i>Export value in 2011 (US\$ mn)</i>	<i>Annual average growth in % (2007-2011)</i>	<i>Product</i>	<i>Export value in 2011 (US\$ mn)</i>	<i>Annual average growth in % (2007-2011)</i>
Organic chemicals	437.3	18	...	...	...
Meat and edible meat offal	298.8	15	Meat and edible meat offal	132.6	26
Electrical, electronic equipment	258.0	21	...	...	...
Cereals	222.0	15	Cereals	318.2	43

Machinery, nuclear reactors, boilers, etc.	206.0	4	Machinery, nuclear reactors, boilers, etc.	153.9	12
Zinc and articles thereof	157.5	261	...	...	...
Coffee, tea, mate and spices	146.5	12	...	...	...
Mineral fuels, oils, distillation products, etc.	141.2	-7	Mineral fuels, oils, distillation products, etc.	1260.8	26
Edible vegetables and certain roots and tubers	125.2	20	...	...	...
Iron and steel	107.9	0	Iron and steel	109.6	-13
Top 10 products (% of total exports)	2100.5 (63%)				
			Copper and articles thereof	674.8	15
			Lead and articles thereof	263.8	56
			Aluminium and articles thereof	236.5	-10
			Commodities not elsewhere specified	234.6	-4
			Pharmaceutical products	191.6	3
			Top 10 products (% of total exports)	3576.2 (77)	

Source: ITC database

India's exports to Australia were valued at approximately US\$2309.3mn in 2011. In the same year, Malaysia's export to Australia was valued at US\$8206.3mn. However, trade statistics of India and Malaysia clearly demonstrate that the two countries compete with each other in at least five product segments. These include pearls, precious stones, metals, coins, etc.; electrical, electronic equipment; machinery, nuclear reactors, boilers, etc.; mineral fuels, oils, distillation products, etc. and articles of iron or steel. In value terms, the conflicting products constitute about 85 percent of the total value of top ten products from Malaysia. More importantly, in three out of five competing products, Malaysia has definitive edge over India (Table 2.2).

The exports of competing products, especially those in which Malaysia has comparative advantage, might get affected as a result of this agreement. The possible adverse impact on Indian exports, however, can be warded off, if India signs trade agreement with Australia, which is already under negotiations.

India's exports to Australia (Exports in 2011: US\$2309.3mn)			Malaysia's exports to Australia (Exports in 2011: US\$8206.2mn)		
Product	Export value in 2011 (US\$ mn)	Annual average growth in % (2007-2011)	Product	Export value in 2011 (US\$ mn)	Annual average growth in % (2007-2011)
Pearls, precious stones, metals, coins, etc.	287.3	20	Pearls, precious stones, metals, coins, etc.	123.3	22

Machinery, nuclear reactors, boilers, etc.	158.7	20	Machinery, nuclear reactors, boilers, etc.	838.7	-3
Electrical, electronic equipment	150.1	-6	Electrical, electronic equipment	1026.6	8
Vehicles other than railway, tramway	146.7	46	...	...	...
Pharmaceutical products	132.7	41	...	...	...
Mineral fuels, oils, distillation products, etc.	122.9	124	Mineral fuels, oils, distillation products, etc.	3840.0	13
Organic chemicals	111.5	23	...	...	...
Other made textile articles, sets, worn clothing etc.	101.4	22	...	...	...
Articles of apparel, accessories, not knit or crochet	73.0	19	...	...	...
Articles of iron or steel	72.5	0	Articles of iron or steel	144.6	-11
Top 10 products (% of total exports)	1356.7 (59)		Animal, vegetable fats and oils, cleavage products, etc.	272.2	10
			Plastics and articles thereof	239.5	7
			Furniture, lighting, signs, prefabricated buildings	210.1	-1
			Rubber and articles thereof	174.4	17
			Wood and articles of wood, wood charcoal	146.7	7
			Top 10 products (% of total exports)	7016.0 (85)	

Source: ITC data base

Food for Thought

Despite non-existence of any trade agreement between India and Australia, trade between the two countries is progressing at an impressive pace. Considering that Malaysia might gain upper hand in some segments (as indicated in CUTS comments above) as a result of this agreement, should India expedite the process of signing FTA with Australia?

3. Canada, Chile expand FTA

Canada and Chile have signed a modernised and expanded FTA, designed to deepen commercial ties between two countries. The new agreement was inked during a visit of Canadian Prime Minister Stephen Harper to Chile. The original FTA came into force in 1997, and bilateral merchandise trade has more than tripled since then, reaching more than US\$2.7bn in 2011. Canada has also been the largest source of new direct investment in Chile over the last decade.

The original FTA covered trade in goods and services, but did not include provisions on financial services. The amended agreement now includes a financial services chapter. This will ensure that Canadian financial institutions enjoy preferential access to the Chilean market and can compete on a level playing field in relation to their competitors. According to the Canadian government, the changes will help institutions develop new markets in the banking, insurance and asset management sub-sectors in Chile.

Commenting on the signing, Harper said: "The Canada-Chile FTA has been the cornerstone of our commercial relationship with Chile for the past 15 years. The enhancements announced will generate further economic growth and job creation in Canada by increasing commercial opportunities for our businesses."

<http://www.bilaterals.org/spip.php?article21328>

CUTS Comments

In 2011, value of total exports from India to Canada was US\$2560.7mn. In the same year value of total exports from Chile to Canada was US\$1475.8mn. However, under new scenario (i.e. signing Canada-Chile FTA) Chile may gain a little edge over India in the future given non-existence of any Indo-Canada trade agreement.

It appears that India and Chile do not have much competitive interest in the Canadian market. However, a comparison of major export items from India and Chile demonstrates that the two countries compete with each other in at least two product segments. These include organic chemicals, pearls, precious stones, metals, coins, etc. More importantly in value terms, the conflicting products constitute about 62 percent of the total value of top ten products from Chile. In one out of two competing products, Chile has definitive edge over India (Table 3.1).

Table 3.1					
India's exports to Canada (Exports in 2011: US\$2560.7mn)			Chile's exports to Canada (Exports in 2011: US\$1475.8 mn)		
<i>Product</i>	<i>Export value in 2011 (US\$ mn)</i>	<i>Annual average growth in % (2007-2011)</i>	<i>Product</i>	<i>Export value in 2011 (US\$ mn)</i>	<i>Annual average growth in % (2007-2011)</i>
Organic chemicals	292.8	-4	Organic chemicals	23.9	-24
Pearls, precious stones, metals, coins, etc.	219.4	4	Pearls, precious stones, metals, coins, etc.	838.5	57
Articles of iron or steel	185.3	20	...	...	...
Articles of apparel, accessories, not knit or crochet	161.6	0	...	...	...
Articles of apparel, accessories, knit or crochet	150.7	-4	...	...	...
Machinery, nuclear reactors, boilers, etc.	144.8	7	...	...	...
Electrical, electronic equipment	126.7	12	...	...	...

Pharmaceutical products	114.5	47	...	...	...
Other made textile articles, sets, worn clothing etc.	97.3	2	...	...	...
Mineral fuels, oils, distillation products, etc.	91.8	356	...	...	...
Top 10 products (% of total exports)	1584.7 (62)				
			Copper and articles thereof	157.8	-30
			Edible fruit, nuts, peel of citrus fruit, melons	105.6	14
			Beverages, spirits and vinegar	93.9	8
			Wood and articles of wood, wood charcoal	52.9	6
			Fish, crustaceans, molluscs, aquatic invertebrates nes	40.8	-3
			Vegetable, fruit, nut, etc. food preparations	31.1	17
			Residues, wastes of food industry, animal fodder	22.5	58
			Oil seed, oleagic fruits, grain, seed, fruit, etc. nes	20.9	72
			Top 10 products (% of total exports)	1388.2 (94)	

Source: ITC data base

India's exports to Chile were valued at approximately US\$499.8mn in 2011. In the same year, Canada's export to Chile was more than 60 percent that of India, and was valued at US\$826.9mn.

Considering the gap between exports of these two countries to Chile, it appears that the competition is not intense between the two countries in the Chilean market. However, it is also observed that the two countries compete with each other in four products' segments, namely vehicles other than railway, tramway, machinery, nuclear reactors, boilers, etc.; inorganic chemicals, precious metal compound, isotopes; electrical, electronic equipment. Three out of the four product segments India is better positioned than Canada. India needs to further strengthen its position in these three and other non-competing product segments to maintain its edge. Further, the impact of the new trade agreement could be effectively neutralised by the newly signed bilateral free trade.

However, in the non-competing product segments namely, mineral fuels, oils, distillation products, etc.; ores, slag and ash; cereals; plastics and articles thereof; iron and steel; and animal, vegetable fats and oils, cleavage products, etc. the new trade agreement might have little impact and will not lead to any significant trade diversion. (See the table 3.2 for a list of top export items in value terms).

Table 3.2					
India's exports to Chile (Exports in 2011: US\$ 499.8mn)			Canada's exports to Chile (Exports in 2011: US\$ 826.9mn)		
Product	Exported value in 2011 (US\$ mn)	Annual average growth in % (2007-2011)	Product	Exported value in 2011 (US\$ mn)	Annual average growth in % (2007-2011)
Vehicles other than railway, tramway	138.7	33	Vehicles other than railway, tramway	19.4	20
Machinery, nuclear reactors, boilers, etc.	33.9	33	Machinery, nuclear reactors, boilers, etc.	157.1	8
Organic chemicals	31.7	12	...	...	...
Pharmaceutical products	25.8	21	...	...	...
Manmade staple fibres	21.7	50	...	...	...
Other made textile articles, sets, worn clothing etc.	20.9	11	...	...	...
Articles of leather, animal gut, harness, travel goods	19.9	12	...	...	...
Inorganic chemicals, precious metal compound, isotopes	17.6	-12	Inorganic chemicals, precious metal compound, isotopes	18.9	64
Electrical, electronic equipment	16.3	6	Electrical, electronic equipment	48.9	0
Articles of apparel, accessories, not knit or crochet	15.3	28	...	...	...
Top 10 products (% of total exports)	342.2 (68)				
			Mineral fuels, oils, distillation products, etc.	114.9	-21
			Ores, slag and ash	96.7	512
			Cereals	55.9	3
			Plastics and articles thereof	39.2	9
			Iron and steel	36.2	62
			Animal, vegetable fats and oils, cleavage products, etc.	33.2	81
			Top 10 products (% of total exports)	620.5 (75)	

Source: ITC data base

Food for Thought

India has a preferential trade agreement (PTA) with Chile and, therefore, one can expect that the impact on Indian exports will not be significant as a result of signing of this agreement. India is also negotiating a Comprehensive Economic Partnership Agreement with Canada. Since Canada has signed FTA with Chile and is in the process of negotiation PTAs with some other countries, should India expedite its CEPA negotiation with Canada? Will such an agreement be able to protect India's export interests in the Canadian market?