

Dossier on Preferential Trade Agreements

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1. Costa Rica, China Reach Preliminary Free-Trade Accord

Costa Rica and China reached an agreement on a free-trade accord after six rounds of talks, Costa Rican Foreign Trade Minister Marco Vinicio Ruiz said.

“We’re linking ourselves with the world’s most dynamic economy,” Ruiz said in an interview today after a news conference in San Jose. The accord needs to be approved by Costa Rica’s congress before it can take effect, he said.

Exports to China will grow 15 percent this year and as much as 20 percent in 2011 because of the trade agreement, Ruiz said in the interview. Costa Rica’s exports to China rose 13 percent last year to \$768 million, led by microchips produced by Intel Corp., according to government trade agency Procomer.

President-elect Laura Chinchilla, who stepped down as President Oscar Arias’s vice-president to run, vowed during the campaign to help turn around the \$29 billion economy with a Chinese trade deal. The country lost about 64,000 jobs last year as tourism and trade with the U.S. plunged.

Opposition candidate Otto Guevara accused Nobel laureate Arias of “checkbook diplomacy” for breaking ties with Taiwan in exchange for Chinese trade and investment.

Ruiz said he expects Arias to sign the accord in April and lawmakers to approve it before 2011.

Critics, including the Costa Rican Chamber of Industries, say the agreement will flood the local market with low-quality imports, increase risks for consumers and force Costa Ricans into the informal sector to compete with Chinese producers.

Sugar, Tires

“China as a trade partner won’t stimulate Costa Rican producers to rise to the level of competition, as would trade agreements with the U.S. or Europe,” Juan Maria Gonzalez, the chamber’s president, said by phone last week.

Costa Rica agreed to lift tariffs on more than 94 percent of Chinese goods within 10 years, and China will lift tariffs on 90 percent of Costa Rica goods in the same period, Fernando Ocampo, Costa Rica’s head negotiator in the talks, said. China refused to lift tariffs on Costa Rican sugar while Costa Rica refused to lift tariffs on Chinese tires, some dairy products and plastics, he said.

Source: <http://www.bloomberg.com/apps/news?pid=20601086&sid=aIHPEvCD7bRc>

CUTS Comments:

China’s exports to Costa Rica in 2008 amounted to US\$619 million with the major exports being iron and steel; electrical and electronic equipment; vehicles other than railway and tramway; nuclear reactors and boilers; and organic chemicals. India’s exports to Costa Rica amounted to US\$39.6 million in the same year, with the top five exports being miscellaneous chemical products; pharmaceutical products; vehicles other than railway and tramway; organic chemicals; and rubber and articles thereof. There could be a possibility of sectoral overlap in organic chemicals and vehicles other than railway and tramway, with Costa Rica preferring to import these from China rather than India, which could result in some loss for India.

India’s export to China during the same year totaled US\$10 billion with the major exports being ores, slag and ash; cotton; organic chemicals; salt, sulphur, earth, stone, plaster, lime and cement; and commodities not elsewhere specified. Costa Rica’s exports to China in 2008 amounted to approximately US\$613 million with the major products exported being electrical and electronic equipment; nuclear reactors and boilers; copper and articles thereof; optical, photo, technical and medical apparatus; and aluminum and articles thereof. There does not seem to be possibility for trade diversion here which could result in losses for India.

Food for Thought:

Costa Rica has been quite active in forming trade agreements with multiple trading agreements such as DR-CAFTA with the US and a Central American FTA with Chile and Panama; as well as bilateral agreements with Mexico, Canada and Caribbean Community (CARICOM). In addition, to the aforementioned agreement with China, Costa Rica signed an agreement with Singapore last month. Could this interest in Asia by the small Central American country provide India with some opportunities to expand its trade ties with it and consequently the rest of Central America?

2. Colombia to Begin Free Trade Talks With Panama as Exports Fall

Colombia and Panama will begin talks on a free-trade agreement today, said Panama's Vice Minister of Trade Francisco Alvarez De Soto.

"Panama would be an interesting market for Colombia," De Soto said in an interview in Panama City. "We are a threat to no one."

Trade between the two countries totaled \$211 million in 2007, the latest year for which information was available, according to Panama's Commerce Ministry.

The talks come as Colombia faces a plunge in exports to neighboring Venezuela after President Hugo Chavez pledged last year to end imports from the Andean country. Chavez said he was acting in response to a deal that allows U.S. armed forces greater access to Colombian military bases.

Colombian exports to Venezuela may fall by about two-thirds to \$1.5 billion this year as a lingering recession and electricity crisis there further suppress demand, central bank chief Jose Dario Uribe said last month.

Source: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aUuCjTvNvr1g>

CUTS Comments:

India's exports to Panama in 2008 totaled approximately US\$93.9 million with the major exports being articles of apparel, knit or crochet; other made textiles articles, sets, worn clothing; articles of apparel, not knit or crochet; articles of iron and steel; and vehicles other than railway and tramway. Colombia's exports to Panama during the same year amounted to approximately US\$319 million and mainly consisted of mineral fuels, oils and distillation products; plastics and articles thereof; pharmaceutical products; printed books, newspapers and pictures; and miscellaneous chemical products. There does not seem to be any possibility of trade diversion here which could result in losses for India.

Panama's exports to Colombia in 2008 amounted to only US\$12 million more than half the total exports being fish, crustaceans and molluscs. The other exports were pharmaceutical products; iron and steel; essential oils, perfumes, cosmetics and toiletries; and beverages, spirits and vinegar. India's exports to Colombia in the same year totaled US\$571 million with the top five exports being mineral fuels, oils and distillation products; vehicles other than railway and tramway; cotton; organic chemicals; and pharmaceutical products. There could be some trade diversion here with Colombia preferring to import pharmaceutical products from Panama rather than India, especially because of their geographical proximity. This could result in some losses for India.

Food for Thought:

As mentioned earlier, India exports mineral fuels, oils and distillation products; and pharmaceutical products to Colombia, and Colombia also exports these to Panama. India could look to expand its trade ties with Panama by exploring possibilities of exporting these products to Panama directly, rather than just focusing on textiles and apparels as its main exports to the Central American nation.