

Dossier on Preferential Trade Agreements

February 2009
(Vol. III, No. 2)

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1. Pakistan-Jordan agree to sign Free Trade Agreement

Pakistan and Jordan have agreed to sign Free Trade Agreement (FTA) to deepen their existing economic and trade relations. A Pakistan delegation will visit Jordan in March this year to formally start negotiation to this effect. This reflects the strong desire of their respective governments, bringing their economic ties at par with excellent diplomatic partnership.

The two countries are moving ahead on a fast track to broaden their multi-dimensional strategic partnership, particularly in defence production and business sectors, said Ambassador of Jordan Dr. Saleh Ahmad Al-Jawarneh who called on President Asif Ali Zardari here.

He told APP that President Zardari has accepted the invitation for participating in the meeting of World Economic Forum (WEF), scheduled to take place in Jordan from May 15 to 17, and expressed his desire to bringing their ties to a new height, meeting the common aspirations of their people.

The invitation was extended to him on behalf of King Abdullah bin Al-Hussain. The Ambassador said that WEF moot will offer a fresh outlook at new economic opportunities and on the evolving political challenges in the region.

Terming, his meeting with President Zardari as highly productive and cordial, the Ambassador said there is a strong will on the level of the present government to consolidate its country's interaction with the Muslim world.

During the meeting, he said he conveyed good wishes of the King of Jordan to the President, the government and the people of Pakistan.

President Asif Ali Zardari thanked the Jordanian King for inviting him to the WEF. He also conveyed his good wishes and of the people of Pakistan to the Jordanian King and the people. He said he found President Zardari very keen in cementing their bilateral ties.

To a question, Dr. Saleh Ahmad Al-Jawarneh said he was highly confident that their relationship will get further boost in the years to come in all fields, including defence production, science and technology, agriculture and textile.

The Kingdom of Jordan attaches great importance to its socio-economic partnership with Pakistan. “We welcome the Pakistani side to seek profitable business and investment opportunities in Jordan”.

It is most fortunate for the countries that such conditions exist and continue to be strengthened as the two nations maintain their historical friendship and association, a testament to the superb leadership of King Abdullah II Ibn Al-Hussein and his Pakistani leaders, President Asif Ali Zardari and Prime Minister Yusuf Raza Gilani.

Recalling his close personal attachment with Pakistan, Dr. Saleh Ahmed Al-Jawarneh said he had the distinction, completing his Graduation and Master’s Degree qualifications from Karachi University. Then from 1987 to 1992, he had the honour to serve as a Junior Diplomat and Deputy Head of Mission (DHM) of the Hashemite Kingdom of Jordan in Islamabad.

Source:

http://www.app.com.pk/en_/index.php?option=com_content&task=view&id=66926&Itemid=2

CUTS Comments:

The volume of trade between Pakistan and Jordan was \$31 million in 2008. Pakistan exports cotton, textiles, cereals and vehicles to Jordan while Indian exports to the latter are mostly concentrated in meat products, organic chemicals, copper, iron and steel and coffee, tea and spices. For 2007-08, Indian exports to Jordan stood at \$357 million while imports from Jordan were \$685 million. India and Jordan signed a Bilateral Investment Promotion and Protection Agreement (BIPPA) in January 2009 and India is Jordan’s third largest export market.

Exports from India to Pakistan stood at \$1.9 billion in 2007-08 and the top exports are organic chemicals, cotton, mineral fuels and oil, plastics and sugar. On the other hand, fertilizers, nuclear reactors, boilers, machinery, iron and steel, inorganic chemicals and pharmaceutical products are the dominant Jordanian exports to Pakistan.

India is clearly an important trading partner for both these countries. Considering the absence of trade overlap between Indian and Pakistani exports to Jordan as well as Indian and Jordanian exports to Pakistan, the FTA between Pakistan and Jordan may not adversely impact India’s exports. However, such an agreement could potentially facilitate Pakistan’s access to other markets in the Middle East. Moreover, their partnership and mutual interest in promoting defence production could also be an issue of concern for India.

Food for Thought:

As India has recently signed a BIPPA with Jordan, can this be utilised to further their bilateral relations and also strengthen India’s position in the Middle East? How will the implications of this BIPPA be changed by the Jordan-Pakistan agreement?

2. Peru-Chile free trade pact to take effect Sunday

A free trade pact between Peru and Chile will take effect this week, a sign that two of the most open economies in South America are deepening their commitment to trade to help weather the global economic crisis.

At a time when more leftist countries in the region such as Ecuador are putting up trade barriers, Peru and Chile are taking them down. Peru's government has issued a decree saying that the deal, which was signed in 2006, will go into effect March 1.

While Peru and Chile have strong commercial ties, their diplomatic relations have been periodically rocky since Chile defeated Peru in the 1879-1883 War of the Pacific and won a chunk of mineral-rich land from its northern neighbor.

Peru filed suit against Chile last year at the International Court of Justice in The Hague, disputing their maritime border and demanding more of the rich Pacific Ocean fishing waters between them.

Even though both countries rely heavily on revenues from mineral exports that have plunged during the global crisis, they remain firmly committed to free trade.

Peru's trade pact with the United States went into effect this year, five years after Chile's deal with Washington started.

Source:

http://www.forbes.com/feeds/reuters/2009/02/23/2009-02-23T185741Z_01_N23347527_RTRIDST_0_PERU-CHILE-TRADE.html

CUTS Comments:

Trade volumes between Chile and Peru have exceeded \$3 billion in the past year indicating a historically strong bilateral trade link between the two neighbours. India has a PTA with Chile and it is the 5th largest export market for Chile in Asia. Exports from India to Chile stood at \$249 million in 2007-08 while exports from Chile to India were \$1.8 billion. Indian exports to Chile are dominated by vehicles other than railways; iron and steel; inorganic chemicals; rubber and articles; textile articles; leather products; organic chemicals; pharmaceuticals; and electrical and electronic equipment, while Peru's exports to Chile consist of ores, slag and ash; mineral fuels & oil; inorganic chemicals, animal, vegetable fats and oils, iron and steel; zinc, apparel and clothing; and plastics.

For 2007-08, Indian exports to Peru were at \$286 million, mostly concentrated in sectors like cotton; iron and steel; vehicles other than railway; pharmaceutical products; rubber and articles; organic chemicals; man-made staple fibres and plastics. On the other hand, Chilean exports to Peru consist of mineral fuels and oil; paper and paperboard; nuclear reactors, boilers and machinery; plastics and articles; fertilizers; wood and articles of wood; and electrical and electronic equipment.

Since there is some sectoral overlap in Indian and Peruvian exports to Chile as well as in Indian and Chilean exports to Peru the newly enacted FTA between Peru and Chile could adversely affect Indian exports to both these countries. .

Food for Thought:

Exports from India to Peru exceed those from the former to Chile. Moreover, this excess is also accompanied by a trade surplus with Peru. Given that ex ante India has already found an FTA with Chile beneficial, would it be in its interest to negotiate the same with Peru?

3. Sino-Pak Insurance business can flourish after signing of FTA in Services Sector

China Thursday hoped to see substantial progress for cooperation between Pakistan and China in the area of Insurance.

Addressing a press conference here at the State Council Information Office, Vice Chairman of China Insurance Regulatory Commission (CIRC) Li Kemu while replying to a question on scope of insurance business after signing of FTA in services sector between Pakistan and China during President Asif Ali Zardari's Feb 20-24 visit to Hubei province and Shanghai, he said that it will pave way for the business circles of Pakistan to visit China to explore the possibility of insurance business.

He said that up till now, 51 foreign insurance companies from 15 countries and regions have established 195 operational institutions in China.

Li said that the signing of FTA in services sector is in his knowledge, adding that "We are looking forward to maintain friendly relations between us".

He pointed out that "China and Pakistan are old friends".

As reported in state media earlier, both China and Pakistan reached the free trade zone agreement in November 2006, focused on trade in goods and investment. The new deal on trade in service means the two countries will build a comprehensive free trade zone.

An official with the International Trade and Economic Affairs of the Ministry of Commerce in a press release said that the new deal on trade in service will lay a more solid foundation for the two countries' cooperation on dealing with the global financial crisis, promoting the economic common development, and furthering the all weather friendship.

Pakistan will further open 102 sub sectors under 11 major sectors out of the 12 WTO defined sectors and China will further open its 28 sub sectors under six major sectors.

The agreement on FTA in services sector is expected to be effective as of the first half of the year.

Source:

http://www.app.com.pk/en/_/index.php?option=com_content&task=view&id=69293&Itemid=2

CUTS Comments:

The comprehensive FTA between China and Pakistan relating to trade in goods and services as well as investment may have some implications for India. Chinese investments in India for the year 2007 totalled \$16 million. With the easier facilitation of investment due to this PTA,

China may look to shift some of its investment into Pakistan, resulting in a significant loss for India.

Further, although India is China's second largest trading partner after U.S.A, it may be in danger of losing some of its export business to Pakistan as a result of the FTA. For example, India's biggest export to China is in the form of ores, slag and ash, accounting for half of its exports to the country. Pakistan's export of the same products accounts for a significant 42% of its exports to China. The FTA could result in China wanting to import more of these products from Pakistan at India's expense, resulting in trade diversion. The same applies to India's third biggest export to China -- organic chemicals – which accounts for 6% of total exports. Organic chemicals account for 9% of total Pakistani exports into China. Again, China may look to import more of this product from Pakistan to India's detriment.

Food for Thought:

In the recent past, there has been much hype about the feasibility of setting up Pakistani insurance businesses in both China and India, with many observers saying it would be lucrative to do so. Would the FTA divert such investment plans that Pakistan may have for India to China? Is this even a credible threat given the current poor political relations between India and Pakistan?

4. Chile FTA to open market up to meat, wine and dairy exports

The Australia-Chile Free Trade Agreement is set to come into force on 6 March, 2009, allowing a host of Australian exporters a greater opportunity to enter a growing market.

The Minister for Trade Simon Crean welcomed the start of the FTA saying it would take the relationship with Chile to a new level. "I am proud of this agreement. This is the first Free Trade Agreement to be concluded by the Rudd Government and, with this announcement, will be the first to enter into force. It is an agreement of the highest quality," he suggested. "It is the most comprehensive outcome on goods in any FTA that Australia has negotiated with another agricultural producing country since the Closer Economic Relations agreement with New Zealand signed ... in 1983."

"At a time of significant downturn in the global economic outlook facing this country, this FTA demonstrates our commitment to expanding trade opportunities, and to our broader efforts to drive economic growth through international trade," Mr Crean said.

The Agreement eliminates immediately Chile's tariffs on almost 92 per cent of tariff lines covering 97 per cent of goods currently traded. These include Australian coal, meat wine and key dairy exports and all other industrial goods of interest to Australia. Tariffs on all existing merchandise trade will be eliminated by 2015.

"As Australia is one of the largest sources of foreign direct investment in Chile, it is notable that the Agreement includes access to and strong protections for Australian investment in Chile, including a right for investors to protect their investments directly through investor-state dispute settlement," Mr Crean advised.

Reflecting the Government's increasing focus on helping services suppliers, the Agreement includes commitments by Chile to maintain an open and non-discriminatory market for Australian services, including in important sectors for Australia such as education, professional services, mining, engineering, management consulting and financial services.

Chile is Australia's third largest trading partner in Latin America and there are approximately 120 Australian companies actively trading with Chile.

Source:

<http://www.ausfoodnews.com.au/2009/02/11/chile-fta-to-open-market-up-to-meat-wine-and-dairy-exports.html>

CUTS Comments:

India was Australia's 10th largest trading partner in 2008, with India's major exports to Australia being rotating electric plants, pearl and gems, jewellery and made up textile articles. Chile's major exports to Australia are copper, pulp and waste paper, pig iron and wood (simply worked). There seems to be no possibility of major trade diversions because there are no product overlaps.

India is Chile's 5th largest export partner from the Asian continent and has strengthened its relations with it through four pacts in April 2008 in the areas of science and technology, air services, sports cooperation and Antarctica expeditions as well as the recent visit by Indian President Pratibha Patil to Chile. The opening of Chile's market to Australian services (education, mining, engineering, management consulting etc.) will not have a negative impact on the relationship between India and Australia in the services sector, mainly because there is considerable distance between India and Chile and there could not be much competition between the two with respect to the service sector.

Food for Thought:

The last year has seen India's relations with Latin America go from strength to strength. India could potentially use its FTA with Chile to increase its FDI into the country and expand its manufacturing and service activities. Chile could then be used as a base to access other Latin American markets. Such a strategy is preferable to direct trade with various Latin American countries as it economises on transport costs and overheads and takes advantage of intra-continental preferential trade agreements.