

Dossier on Preferential Trade Agreements

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1. New Zealand launches Hong Kong trade agreement

New Zealand and Hong Kong launched a Closer Economic Partnership (CEP) Monday which New Zealand Trade Minister Tim Groser said was part of a regional drive towards trade growth through liberalisation.

"I am pleased to confirm that Hong Kong and New Zealand have both completed the necessary legislative measures and that the CEP has come into force," he said.

"As the only two developed economies with Free Trade Agreements (FTA) with China, New Zealand and Hong Kong have both mitigated the worst effects of the global recession through our businesses' performance in that dynamic market."

Under the agreement, New Zealand goods currently entering Hong Kong at a zero tariff will be bound at that level and remaining tariffs will be progressively reduced to mirror those in the New Zealand-China FTA.

Hong Kong is New Zealand's ninth largest export market, worth 865 million dollars (USD675mn) in the year up to October 2010.

Groser said the "strategic importance" of the CEP is that it will help New Zealand companies in Hong Kong as well as support companies in strengthening business in China from a base in Hong Kong.

The CEP represents part of a "wider regional drive towards growth in trade through liberalisation" which has seen New Zealand conclude FTAs with Singapore, the P4 countries (Brunei, Chile and Singapore), Thailand, China, ASEAN and Malaysia, he said.

New Zealand is currently negotiating Free Trade Agreements with India, South Korea and Russia.

<http://www.bilaterals.org/spip.php?article18797>

CUTS Comments

India's exports to New Zealand were valued at US\$248mn in 2009. As compared to this, Hong Kong's export to New Zealand during the same period was 60 percent more than that of India and was valued at about US\$415mn (a comparative list of India's and Korea's top exports items to New Zealand in value terms is given in the table 1.1).

A comparison of major export items from India and Hong Kong demonstrates that the two countries compete with each other in at least three product segments. More importantly, two of the competing products are in high value range. Except in pearls, precious stones, metals and coins, Hong Kong appears to be better placed in four other product segments compared to India. Thus, full implementation of this agreement could impact export of these items from India, mainly because of the present low volume of exports from India. Absence of any similar trade agreement between India and the New Zealand leaves a scope for trade diversion in both short and medium terms. However, the impact could be reduced or neutralised if India enters into similar agreement with New Zealand, as discussion for a FTA is already underway.

India's exports to New Zealand <i>Year 2009 Total: US\$ 248.0 mn</i>		Hong Kong's exports to New Zealand <i>Year 2009 Total: US\$414.79 mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Machinery, nuclear reactors, boilers, etc	43.4	Machinery, nuclear reactors, boilers, etc	57.7
Aircraft, spacecraft, and parts thereof	28.7	--	--
Mineral fuels, oils, distillation products, etc	21.9	--	--
Pharmaceutical products:	19.6	--	--
Commodities not elsewhere specified	18.2	--	--
Pearls, precious stones, metals, coins, etc	14.8	Pearls, precious stones, metals, coins, etc	7.0
Other made textile articles, sets, worn clothing etc	7.3	--	--
Inorganic chemicals, precious metal compound, isotopes	6.5	--	--
Articles of apparel, accessories, not knit or crochet	6.2	Articles of apparel, accessories, not knit or crochet	46.4
		Electrical, electronic equipment	134.1
		Articles of apparel, accessories, knit or crochet	45.7
		Footwear, gaiters and the like, parts thereof	19.6
		Toys, games, sports requisites	18.3
		Plastics and articles thereof	9.9
		Clocks and watches and parts thereof	8.9
		Printed books, newspapers, pictures etc	8.1
		Optical, photo, technical, medical, etc apparatus	7.6
		Articles of leather, animal gut, harness, travel goods	6.3

India's exports to Hong Kong in 2009 in value terms totalled approximately US\$7,155.7mn. In comparison, exports from New Zealand to Hong Kong was much lower at US\$499mn, or only seven percent that of India (a comparative list of top export products from India and New Zealand in value terms is shown in the table 1.2).

The products exported by both India and New Zealand to Hong Kong compete with each other in at least two products' segments. In terms of value, while in the case of electrical, electronic equipment, India appears to be in advantageous position; New Zealand has visible advantage in fish, crustaceans, molluscs, aquatic invertebrates nes. Except in these products, not much challenge is foreseen in the near future for Indian exports to Hong Kong. At this stage, it can be said that the scope for trade diversion is quite limited.

India's exports to Hong Kong Year 2009 Total: US\$ 7,155.7mn		New Zealand's exports to Hong Kong Year 2009 Total: US\$499.0 mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Pearls, precious stones, metals, coins, etc	5,579.2	--	--
Electrical, electronic equipment	433.4	Electrical, electronic equipment	18.5
Ores, slag and ash	256.5	--	--
Raw hides and skins (other than furskins) and leather	209.9	--	--
Fish, crustaceans, molluscs, aquatic invertebrates nes	115.7	Fish, crustaceans, molluscs, aquatic invertebrates nes	156.5
Cotton	96.7	--	--
Silk	66.4	--	--
Salt, sulphur, earth, stone, plaster, lime and cement	38.4	--	--
Copper and articles thereof	38.2	--	--
Machinery, nuclear reactors, boilers, etc	32.1	--	--
		Meat and edible meat offal	66.8
		Dairy products, eggs, honey, edible animal product nes	44.8
		Edible fruit, nuts, peel of citrus fruit, melons	33.0
		Raw hides and skins (other than furskins) and leather	27.6
		Meat, fish and seafood food preparations nes	17.2
		Products of animal origin, nes	18.8
		Live animals	22.0
		Paper & paperboard, articles of pulp, paper and board	16.2

Food for Thought

Despite sharing a good relationship, and trade between India and New Zealand recently growing at an impressive rate, the share of New Zealand in India's total export continues to be very low, accounting for only 0.1 percent of India's world exports. Though the situation is better in case of India's share in New Zealand total export, as it constitutes about 1.25 percent of the total exports of New Zealand, a greater potential lies ahead and could be exploited by the two countries. Should India expedite the process of negotiation for an FTA between the two countries?

2. S. Korea and Peru sign FTA

South Korea's Trade Minister Kim Jong-hoon and his Peruvian counterpart Eduardo Ferreyros Monday inked the free trade agreement in Seoul after five rounds of negotiations over a two-year period.

The South Korea-Peru FTA is expected to boost bilateral trade by around 50 percent. Under the agreement, both countries will eliminate all tariffs within ten years after it takes effect. Peru is the ninth largest trade partner for Korea and the trade between two countries amounted to USD1.98bn last year.

South Korea's electronic and automobile companies are expected to see an increase in sales, while tariffs on Peruvian coffee will be abolished immediately after ratification and agricultural commodities such as asparagus and bananas will be eliminated by stages.

<http://www.bilaterals.org/spip.php?article19251>

CUTS Comments

India's exports to South Korea totalled approximately US\$3772.3mn in 2009. Compared to this, Peru's exports to South Korea was about one-fifth that of India and was valued at US\$749.6mn as shown in the table 2.1. What is important is the fact that, India's export basket appears to be more diversified than that of Peru. It is observed that in case of Peru, export of ores, slag and ash account for nearly 85 percent of its exports to South Korea. A comparison of exports from India and Peru to South Korea shows that the two countries compete with each other in three products' segment, of which ores, slag and ash is also a part. Except this, there is not much competition between the two countries as far as their export to South Korean market is concerned. India's interest could be further protected by its existing FTA with South Korea.

India's exports to South Korea Year 2009 Total: US\$ 3772.3mn		Peru's exports to South Korea Year 2009 Total: US\$749.6mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Mineral fuels, oils, distillation products, etc	2110.0	Mineral fuels, oils, distillation products, etc	44.1
Organic chemicals	243.5	--	--
Ores, slag and ash	173.4	Ores, slag and ash	630.9
Cotton	166.6	--	--
Iron and steel	160.7	--	--
Pearls, precious stones, metals, coins, etc	117.4	--	--
Machinery, nuclear reactors, boilers, etc	102.9	--	--
Residues, wastes of food industry, animal fodder	100.0	--	--
Aluminium and articles thereof	61.6	--	--
Zinc and articles thereof	46.5	Zinc and articles thereof	2.2
		Copper and articles thereof	24.5
		Coffee, tea, mate and spices	19.1
		Fish, crustaceans, molluscs, aquatic invertebrates nes	16.5

		Meat, fish and seafood food preparations nes	10.9
		Wool, animal hair, horsehair yarn and fabric thereof	3.3
		Articles of apparel, accessories, knit or crochet	2.2
		Animal,vegetable fats and oils, cleavage products, etc	1.6

India's exports to Peru in 2009 totalled approximately US\$217.5mn. South Korea export to Peru during the same period was nearly three times that of India and was valued at approximately US\$641.4mn (See the table 2.2 for a list of top export items in value terms).

A comparison of export items from India and South Korea shows that there is competition in at least eight major export segments. South Korea appears to be in a much better position than India in most of the competing segments. This may be further aggravated in future as the proposed agreement would open up new opportunities for South Korean products in Peruvian market in which it has a comparative advantage, and thus could lead to more competition for Indian products. Thus, the agreement could lead to significant trade diversion, and India needs to be prepared for this. It must think of ways to reduce the impact of South Korea-Peru FTA.

Table 2.2			
India's exports to Peru Year 2009 Total: US\$217.5mn		South Korea's exports to Peru Year 2009 Total: US\$641.4mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Cotton	51.8	--	--
Iron and steel	30.4	Iron and steel	44.0
Vehicles other than railway, tramway	27.0	Vehicles other than railway, tramway	198.0
Pharmaceutical products	16.6	Pharmaceutical products	9.9
Rubber and articles thereof	12.9	Rubber and articles thereof	21.4
Plastics and articles thereof	9.5	Plastics and articles thereof	38.2
Manmade staple fibres	8.9	--	--
Electrical, electronic equipment	8.2	Electrical, electronic equipment	49.9
Organic chemicals	8.1	Organic chemicals	18.8
Machinery, nuclear reactors, boilers, etc	7.6	Machinery, nuclear reactors, boilers, etc	54.8
		Aircraft, spacecraft, and parts thereof	12.5
		Inorganic chemicals, precious metal compound, isotopes	10.7

Food for Thought

Peru is an associate member of Mercosur, with which India signed a preferential trade agreement in 2009. The trade and economic relationship between India and Mercosur has significantly improved over the last few years. Should India leverage its good relationship with Mercosur to protect its interests in countries such as Peru in the region? Should India promote investments by Indian companies especially in sectors in which India has comparative advantage?

3. US, Brazil sign trade, economic agreement as Obama visits

The US and Brazil signed a trade and economic cooperation agreement to boost commerce between the Western Hemisphere's largest economies as President Barack Obama arrived for his first visit to South America.

The accord creates a US-Brazil Commission to expand trade and remove non-tariff barriers, according to a statement today from US Trade Representative Ron Kirk's office. The Commission will be led by Kirk's office and by officials from two Brazilian ministries responsible for trade, industry and development.

Obama, appearing with Brazilian President Dilma Rousseff in Brasilia today, said the nation is becoming a global economic leader and the two governments have a "historic opportunity" to deepen cooperation. Obama said he is starting his first visit to South America in Brazil to highlight its economic ascendancy.

Increasing US companies' sales to Brazil would help meet Obama's goal of doubling exports by 2015. US sales to Brazil climbed to a record USD35.4bn last year as the Brazilian currency Real's two-year, 41 percent rally against the dollar made American goods more attractive.

A trade and economic cooperation agreement is "among the first steps on the road to a free-trade agreement," John Faraci, Chief Executive Officer of Memphis, Tennessee-based International Paper Co., the world's largest paper and pulp producer, said today at the US-Brazil Business Summit in Brasilia....

<http://www.bilaterals.org/spip.php?article19240>

CUTS Comments

India's exports to Brazil were valued at approximately US\$1,781.9mn in 2009. In the same year, the US export to Brazil was nearly 15 times that of India, and was valued at US\$26,175.3mn. More importantly, a comparison of top ten export items shows that India and the US compete with each other in six product categories. In all the competing products' categories, the US is better placed than India as its export of these items are way above that of India. This agreement would further tilt the balance in the US favour. Its impact on Indian exports appears to be significant leaving lot of scope for trade diversion. (See the table 3.1 for a list of top export items in value terms). India should leverage the existing PTA between India and Mercosur to guard its trade interests.

Table 3.1			
India's exports to Brazil Year 2009 Total: US\$ 1,781.9mn		US exports to Brazil Year 2009 Total: US\$26,175.3mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Mineral fuels, oils, distillation products, etc	523.9	Mineral fuels, oils, distillation products, etc	1894.1
Organic chemicals	170.2	Organic chemicals	1400.7
Pharmaceutical products	114.0	Pharmaceutical products	747.0
Electrical, electronic equipment	111.8	Electrical, electronic equipment	3028.1
Miscellaneous chemical products	93.2	Miscellaneous chemical products	705.8
Machinery, nuclear reactors, boilers, etc	81.5	Machinery, nuclear reactors, boilers, etc	5708.5

Manmade filaments	75.2	--	--
Manmade staple fibres	73.5	--	--
Cotton	68.1	--	--
Iron and steel	56.3		--
		Aircraft, spacecraft, and parts thereof	4692.0
		Optical, photo, technical, medical, etc apparatus	1449.4
		Plastics and articles thereof	1358.4
		Vehicles other than railway, tramway	705.8

India's exports to the US in 2009 totalled approximately US\$19,128.2mn. Brazil's exports to the US during the same period were about 20 percent lower than that of India and were valued at US\$15,744.9mn. (See the table 3.2 for a list of top export items in value terms).

A comparison of top ten export items of India and Brazil shows that the two countries compete with each other in three product segments. In value terms, while India is relatively better placed in two segments (electrical, electronic equipment and organic chemicals), Brazil has relative advantage over India in the case of machinery, nuclear reactors, boilers, etc. As of now, the competition appears limited to about 15 percent of the total exports from India to the US.

Table 3.2			
India's exports to US <i>Year 2009 Total: US\$ 19,128.2mn</i>		Brazil's exports to US <i>Year 2009 Total: US\$15,744.9mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Pearls, precious stones, metals, coins, etc	4576.1	--	--
Articles of apparel, accessories, not knit or crochet	1524.5	--	--
Electrical, electronic equipment	1417.6	Electrical, electronic equipment	894.6
Pharmaceutical products	1170.1	--	--
Articles of apparel, accessories, knit or crochet	1164.7	--	--
Organic chemicals	998.3	Organic chemicals	576.4
Other made textile articles, sets, worn clothing etc	959.3	--	--
Machinery, nuclear reactors, boilers, etc	936.4	Machinery, nuclear reactors, boilers, etc	1391.9
Articles of iron or steel	811.9	--	--
Vehicles other than railway, tramway	391.9	--	--
		Mineral fuels, oils, distillation products, etc	2620.1
		Aircraft, spacecraft, and parts thereof	971.7
		Coffee, tea, mate and spices	775.6
		Pulp of wood, fibrous cellulosic material, waste etc	526.0
		Wood and articles of wood, wood charcoal	518.9
		Stone, plaster, cement, asbestos, mica, etc	417.7
		Rubber and articles thereof	374.7

Food for Thought

India and Brazil have recently decided to forge stronger trade and economic ties and have also decided to work towards achieving a bilateral trade target of \$10bn in the next few years against \$7.73bn in 2010. As members of BRIC, the economic cooperation between the two countries has significantly improved over the last few years. India's existing PTA with Mercosur gives India an added advantage. Leveraging the current momentum with Brazil and good relation with other Mercosur countries, should India identify sectors and make investments where it has comparative advantages?