

CUTS Dossier on Preferential Trade Agreements

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1. Free trade agreement with five CIS countries enters into force for Moldova

The free trade agreement (FTA) with the CIS member countries, signed in St Petersburg in 2011 and ratified by the Moldovan Parliament on September 27, 2012, entered into force for Moldova in 2013.

The Head of the General Department for Trade Policies of the Economics Ministry, Inga Ionesii said that "the entrance into force of the agreement will dynamise the regional trade relations, will facilitate drawing investments, as well as the exchange of technologies and innovations between the signatory states, CIS members. So far, the agreement has been ratified by Russia, Ukraine, Belarus, Armenia, Kazakhstan and Moldova".

The document sees provisions similar to the other agreements concluded by Moldova within the Central European Free Trade Agreement (CEFTA), adjusted to the specifics of trade relations within the CIS, and with some improvement that will contribute to ensuring a stable framework with the CIS states via a juridical basis simplified for the trade operations, and a higher level of transparency, by including some provisions adjusted to the WTO agreements.

The new variant of the agreement on the trade zone within CIS implies the facilitation of the regional trade through the improvement of the trade relations between the signatory states, maintenance of the zero customs duties on over 10,000 groups of goods, gradual removing the fees on products with exception from the free trade regime, as well as failure of new restrictions in commerce. Due to the new agreement, the number of existent bilateral agreements on trade relations with the CIS countries is reduced. At the

same time, the agreement sees mechanisms for settling the trade litigations within the WTO platform and in the limit of mechanisms and procedures accepted by the sides.

Also, the agreement sees the maintenance of the export customs duties on gas, raw material for heavy industry and wood from Russia. Exception from the free trade regime is for sugar with Ukraine.

Once the speeding efforts in the European integration process, the economic cooperation within the CIS remains an important level for promoting Moldova's economic interests, as the CIS states hold a 35-percent-share of the country's foreign trade. That's why, during the past years, there have been held negotiations on a new agreement on free trade within the CIS, which would include provisions of all the existent bilateral agreements, adjusted to the international norms on the matter. "This agreement does not contravene the external and internal policy promoted by Moldova, nor the international commitments", Inga Ionesii said.

In 1994, the CIS member states signed a document on setting up a free trade zone within the CIS. Yet, it failed to enter into force, as it was not ratified by the CIS member states. Meanwhile, Moldova has signed a string of bilateral agreements with the CIS member states, which provided for many exceptions from the free trade regime. A new agreement on the matter was signed in St Petersburg on October 18, 2011, and ratified by the Moldovan Parliament on September 27, 2012.

Source: www.allmoldova.com/en/moldova-news/1249055209.html

CUTS Comments

Trade statistics reflects that, in 2011, the value of total exports from India to Commonwealth of Independent States (CIS)¹ was US\$3161.8mn. In the same year, the value of total exports from Moldova to CIS was US\$932.5mn. An examination of the export-basket based on top ten export items of the two countries shows that India and the Moldova do not have much competitive interest in the CIS markets. The comparison of major export items from India and Moldova to CIS demonstrates that the two countries compete with each other in only three product segments. These include pharmaceutical products; machinery, nuclear reactors, boilers, etc.; and vehicles other than railway, tramway. In all of these three competing products segments, while India appears to have relative advantage in terms of absolute value of exports; Moldova has definitive advantage over India in terms of growth rate it has achieved during the period 2007 to 2011 (Table 1.1). The trend is indicative of the fact that the newly signed agreement might help Moldova to further improve its position in these segments. India needs to increase its competitiveness in these product segments in order to retain and maintain its position in the CIS market in. India does not have preferential trade agreement with CIS and, therefore, one can expect that the impact on competing Indian exports will be significant as a result of this agreement.

In non-competing seven top product segments namely electrical, electronic equipment; coffee, tea, mate and spices; aircraft, spacecraft, and parts thereof; iron and steel; miscellaneous edible

¹ The CIS is comprised of nine countries, namely Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Ukraine, as shown at www.cisstat.com.

preparations; meat and edible meat offal; and articles of apparel, accessories, knit or crochet, India may continue to remain a dominant player in the CIS market compared to Moldova.

Overall, as indicated above, it appears that the new agreement might adversely impact three product segments in which both India and Moldova compete with each other. In other segments, the impact could be expected to be negligible or low. The scope of trade diversion is therefore quite low limited to a few products only.

India's exports to Commonwealth of Independent States (CIS) <i>(Exports in 2011: US\$3161.82mn)</i>		Moldova's exports to Commonwealth of Independent States (CIS) <i>(Exports in 2011: US\$932.48mn)</i>		
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
805.4	16.5	Pharmaceutical products	74.1	116.8
322.2	144.3	Electrical, electronic equipment	...	...
219.7	37.5	Coffee, tea, mate and spices	...	...
206.9	167.5	Aircraft, spacecraft, and parts thereof	...	...
185.2	7.9	Machinery, nuclear reactors, boilers, etc.	88.8	37.0
148.2	21.8	Iron and steel	...	...
102.8	25.3	Miscellaneous edible preparations	...	...
96.3	29.4	Vehicles other than railway, tramway	28.7	32.1
92.3	33.0	Meat and edible meat offal	...	...
77.5	-5.7	Articles of apparel, accessories, knit or crochet	...	...
		Beverages, spirits and vinegar	144.2	7.1
		Edible fruit, nuts, peel of citrus fruit, melons	112.6	46.7
		Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	41.9	48.5
		Vegetable, fruit, nut, etc. food preparations	35.1	1.8
		Furniture, lighting, signs, prefabricated buildings	27.5	9.2
		Plastics and articles thereof	26.5	33.1
		Rubber and articles thereof	24.4	33.2
2256.5 (71%)		Top 10 Products (% of total exports)	603.6 (65%)	

Source: ITC data base

In 2011, India's exports to the Moldova were valued at approximately US\$8.2mn, which are nearly insignificant compared to export from CIS countries to Moldova. In 2011, the CIS' export to Moldova was valued at US\$1597.2mn, nearly 175 times that of India. Considering the huge gap between exports of India and CIS to Moldova, it is clear that India does not present any competition to CIS countries in the Moldovan market. It is also observed that in all the product segments, export from India is quite low, and in eight of the top ten product segments, there is no competition between the two countries as the two countries competes with each other only in two

product segments, namely electrical, electronic equipment; and miscellaneous edible preparations. In case of non-competing segments, considering that India has an insignificant penetration in the Moldovan market compared to that of CIS countries, while the new agreement will further consolidate CIS countries position in the Moldovan market, but it might not have any significant impact on Indian exports, mainly on export of pharmaceutical products; miscellaneous chemical products; raw hides and skins (other than furskins) and leather; optical, photo, technical, medical, etc. apparatus; miscellaneous manufactured articles; rubber and articles thereof; organic chemicals; and articles of apparel, accessories, not knit or crochet (Table 1.2).

Table 1.2				
India's exports to Republic of Moldova (Exports in 2011: US\$8.22mn)			CIS's exports to Republic of Moldova (Exports in 2011: US\$1597.19mn)	
Export Value in 2011 (US\$mn)	Annual growth (2007- 2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
4.9	1.0	Pharmaceutical products	...	...
1.9	415.8	Electrical, electronic equipment	71.1	14.4
0.2	87.5	Miscellaneous chemical products	...	...
0.2	NA	Raw hides and skins (other than furskins) and leather	...	...
0.1	NA	Miscellaneous edible preparations	47.6	16.4
0.1	145.6	Optical, photo, technical, medical, etc. apparatus	...	...
0.1	NA	Miscellaneous manufactured articles	...	...
0.1	60.9	Rubber and articles thereof	...	...
0.1	65.5	Organic chemicals	...	...
0.1	200.0	Articles of apparel, accessories, not knit or crochet	...	...
		Mineral fuels, oils, distillation products, etc.	274.3	-2.7
		Iron and steel	139.8	-12.9
		Tobacco and manufactured tobacco substitutes	101.5	18.9
		Machinery, nuclear reactors, boilers, etc.	91.8	5.7
		Plastics and articles thereof	57.5	2.2
		Vehicles other than railway, tramway	48.7	-0.9
		Fertilizers	45.9	26.7
		Articles of iron or steel	44.5	-1.6
7.74 (93%)		Top 10 Products (% of total exports)	922.63 (58%)	

Source: ITC data base

Food for Thought

India does not have preferential trade agreement (PTA) with CIS or with Moldova. In the recent periods, India has taken some initiatives towards negotiation of CECA with the BKRCU (Belarus, Kazakhstan, Russia Custom Union). In the wake of emerging dynamics, should India

sign FTA with CIS countries or expedite CECA negotiation with BKRCU to counter challenges to India's export penetration in CIS countries? Will such an agreement be able to protect India's export interests in the CIS as well as Moldovan markets?

2. EU-FTA's entry into force marks a new era for Peru's exports

Peru will experience a change of era with the entry into force of the Multi-Part Trade Agreement with the European Union (EU) due to it is the world's largest import market for Peruvian products, EU Ambassador to Peru, Hans Allden.

“We are talking about a change of era for Peru as this treaty is the wider trade agreement the country has ever signed in its history as EU is the world's leading economy”, he said in statements to Andina news agency. “This treaty means a huge quantitative and qualitative leap for Peru with respect to the strengthening of politic and economic ties”, Allden added.

Moreover, Allden said it means for Peru a valuable instrument to further continue with the social inclusion policy which allows, in particular, to the country's small and medium-sized companies to advance in challenging markets of the European bloc. Thus, the Ambassador stressed that for the EU is of the main importance to enhance the trade agreement with Peru for being one of Latin America's most important countries due to it offers a noteworthy economic stability and high legal security for investments.

The EU, in 2010, exported goods worth €2,300mn to Peru and the imports totaled €5,100mn, which reveals its importance as a market for shipments from Peru.

Source: www.andina.com.pe/Ingles/noticia-euftas-entry-into-force-marks-a-new-era-for-perus-exports-446861.aspx

CUTS Comments

Trade statistics reflects that, in 2011, value of total exports from India to the EU (27) amounted to US\$54.6bn. In the same year, value of total exports from Peru to the EU (27) was US\$8.2bn. Overall, India appears to be well positioned in the EU market, and therefore, in the wake of the signing of Peru-EU (27) agreement, there is little scope of Peru gaining a more advantageous position vis-à-vis India. This is reflected by an examination of the export basket of two countries. Data shows that India and Peru compete with each other in only two products segments, namely mineral fuels, oils, distillation products, etc. and pearls, precious stones, metals, coins, etc. In both the segments, India's export is much above that of Peru. However, on the contrary, it is also observed that the rate of growth of export from Peru to the EU market is way above that of India. (Table 2.1)

India needs to increase its competitiveness in the two product segments in order to retain its export market to counter completion from Peru. Since India does not have PTA with the EU (27) as of now (though it is negotiating to enter into an FTA in the coming periods), one can expect that the new Peru-EU (27) trade agreement could slightly impact Indian exports in the short run, there will be negligible impact in the long run.

In non-competing segments namely articles of apparel, accessories, not knit or crochet; electrical, electronic equipment; organic chemicals; articles of apparel, accessories, knit or crochet; machinery, nuclear reactors, boilers, etc; vehicles other than railway, tramway; iron and steel; and footwear, gaiters and the like, parts thereof, India will continue to remain a dominant player compared to Peru.

It is interesting to note that in product segments namely ores, slag and ash; coffee, tea, mate and spices; copper and articles thereof; edible fruit, nuts, peel of citrus fruit, melons; fish, crustaceans, mollusks, aquatic invertebrates nes; residues, wastes of food industry, animal fodder; zinc and articles thereof; vegetable, fruit, nut, etc. food preparations, India does not export much to the EU (27) even though it enjoys global comparative advantage in most of the segments. India can make significant gains, if it pushes these products into the EU (27) market.

India's exports to European Union (EU 27) <i>(Exports in 2011: US\$ 54610.8mn)</i>		Peru's exports to European Union (EU 27) <i>(Exports in 2011: US\$ 8299.8mn)</i>		
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
9597.7	51.8	Mineral fuels, oils, distillation products, etc.	626.2	222.4
4808.2	22.9	Pearls, precious stones, metals, coins, etc.	295.5	151.0
3785.5	16.3	Articles of apparel, accessories, not knit or crochet	...	...
3112.2	39.9	Electrical, electronic equipment	...	...
2833.2	19.4	Organic chemicals	...	...
2693.5	6.4	Articles of apparel, accessories, knit or crochet	...	...
2488.5	12.7	Machinery, nuclear reactors, boilers, etc.	...	...
2218.7	27.0	Vehicles other than railway, tramway	...	...
1955.1	-1.6	Iron and steel	...	...
1639.0	11.6	Footwear, gaiters and the like, parts thereof	...	...
		Ores, slag and ash	3011.3	13.6
		Coffee, tea, mate and spices	995.1	61.5
		Copper and articles thereof	950.6	5.9
		Edible fruit, nuts, peel of citrus fruit, melons	400.7	43.3
		Fish, crustaceans, molluscs, aquatic invertebrates nes	280.8	18.3
		Residues, wastes of food industry, animal fodder	280.0	0.2
		Vegetable, fruit, nut, etc. food preparations	259.9	3.9
		Zinc and articles thereof	155.8	5.7
35131.66 (64%)		Top 10 Products (% of total exports)	7255.95 (87%)	

Source: ITC data base

Trade statistics reflects that, in 2011, India's exports to Peru were valued at approximately US\$525.9mn, which were nearly seven times lower than that of the EU (27)'s export to Peru. In 2011, the EU export to Peru was valued at US\$3872.1mn. The huge gap between exports from India and the EU clearly reflects that EU is better positioned than that of India in the Peruvian market. A comparison of top ten export items of India and EU demonstrates that the two countries compete with each other in five product segments, namely pharmaceutical products; iron and steel; plastics and articles thereof; electrical, electronic equipment; and vehicles other than railway, tramway. More importantly, in all of these five segments, the EU is better positioned than India. Considering the evolving dynamics, India will need to strengthen its position in both competing and non-competing segments to continue its penetration of the Peruvian market.

As far as this agreement is concerned, overall impact on India's export will be moderate in both the markets. It will not lead to much trade diversion in the short or longer periods.

Table 2.2				
India's exports to Peru (Exports in 2011: US\$525.88mn)			European Union (EU 27)'s exports to Peru (Exports in 2011: US\$3872.07mn)	
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
107.3	47	Vehicles other than railway, tramway	374.5	56.1
93.6	9	Cotton	...	...
61.5	32	Iron and steel	112.5	-2.8
34.6	56	Manmade filaments	...	...
33.1	37	Manmade staple fibres	...	...
29.5	48	Plastics and articles thereof	96.7	14.9
26.6	95	Electrical, electronic equipment	470.8	23.7
25.8	8	Rubber and articles thereof	...	...
22.9	12	Pharmaceutical products	128.2	26.3
13.8	20	Organic chemicals	...	...
		Machinery, nuclear reactors, boilers, etc.	1280.6	23.0
		Optical, photo, technical, medical, etc. apparatus	133.0	8.7
		Paper and paperboard, articles of pulp, paper and board	118.4	7.5
		Articles of iron or steel	98.2	34.1
		Commodities not elsewhere specified	95.1	23.3
448.7 (85%)		Top 10 Products (% of total exports)	2907.94 (75%)	

Source: ITC data base

Food for Thought

India does not have PTA with Peru, while negotiation is on and is in the final stage for a framework agreement with the EU (27). In the beginning, one can expect that the impact on Indian exports will not be significant in the EU (27) markets but some impact will be seen in the Peruvian market as a result of signing of this agreement. Should India enter into a PTA negotiation with Peru to protect its export interest? Will such agreement be able to protect India's export interests in the Peruvian as well as the EU (27) markets?

3. Costa Rican lawmakers approve free trade agreement with Mexico

Costa Rica's Legislative Assembly approved in a second round debate a FTA between Mexico and Central America, with the vote of 42 lawmakers.

Approval in a first debate was reached in December with 39 votes in favour. The only lawmakers who voted against the agreement were Claudio Monge and Carmen Granados, from the Citizen Action Party, and Broad Front Party lawmaker José María Villalta.

Costa Rica already had a FTA with Mexico, in force since January 1995, which now is unified with the rest of Central American countries. It was the first bilateral free trade treaty negotiated by Costa Rica.

Mexico represents a market of more than 110 million people, and the new agreement aims to facilitate trade and reduce transaction costs. Official Mexican government statistics show that trade between that country and the five Central American countries increased 3.6 times in the past 10 years.

Source: www.ticotimes.net/Current-Edition/News-Briefs/Costa-Rican-lawmakers-approve-free-trade-agreement-with-Mexico_Wednesday-February-27-2013

CUTS Comments

Trade statistics reflects that, in 2011, the value of total exports from India to Costa Rica was US\$63.5mn. In the same year, the value of total exports from Mexico to Costa Rica was US\$998.9mn, 16 times higher than export from India. In the wake of the new dynamics of Costa Rica entering into an FTA with Mexico, the overall position can further tilt in favour of Mexico.

A comparison of major export items from India and the Mexico to Costa Rica demonstrates that the two countries compete with each other in at least six product segments. They include pharmaceutical products; vehicles other than railway, tramway; electrical, electronic equipment; iron and steel; plastics and articles thereof; paper and paperboard, articles of pulp, paper and board. Out of the six competing products, Mexico has definitive edge over India in all product segments (Table 1.1). India needs to increase its competitiveness in these product segments in order to capture increased export market in Costa Rica. India does not have PTA with Costa Rica and, therefore, one can expect that the impact on competing Indian exports will be significant as a result of this agreement.

This will be more so in case of exports of pharmaceutical products; vehicles other than railway, tramway; electrical, electronic equipment; iron and steel; plastics and articles thereof; paper and paperboard, articles of pulp, paper and board. In non-competing segments like miscellaneous chemical products; organic chemicals; rubber and articles thereof; and articles of apparel, accessories, knit or crochet, India may continue to maintain its current position compared to Mexico. It is also observed that in product segments namely machinery, nuclear reactors, boilers, etc.; cereal, flour, starch, milk preparations and products; articles of iron or steel; and essential oils, perfumes, cosmetics, toiletries, India does not export much to Costa Rica even when India enjoys moderate advantage in some of the product segments. Improvement

in India's competitiveness in these segments could improve India's overall position in the Peruvian market.

Table 3.1				
India's exports to Costa Rica (Exports in 2011: US\$63.50mn)			Mexico's exports to Costa Rica (Exports in 2011: US\$998.98mn)	
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
12.8	14.0	Pharmaceutical products	31.1	-15.0
9.9	10.0	Vehicles other than railway, tramway	65.9	15.0
6.4	27.0	Miscellaneous chemical products	...	...
6.2	104.0	Electrical, electronic equipment	175.7	18.0
4.8	6.0	Organic chemicals	...	...
3.8	48.0	Iron and steel	56.0	-17.0
2.8	9.0	Rubber and articles thereof	...	...
2.4	140.0	Paper and paperboard, articles of pulp, paper and board	54.7	3.0
2.0	133.0	Articles of apparel, accessories, knit or crochet	...	...
2.0	70.0	Plastics and articles thereof	83.5	18.0
		Machinery, nuclear reactors, boilers, etc.	77.5	11.0
		Essential oils, perfumes, cosmetics, toiletries	52.9	12.0
		Articles of iron or steel	40.7	20.0
		Cereal, flour, starch, milk preparations and products	27.9	21.0
53.21 (84%)		Top 10 Products (% of total exports)	665.90 (67%)	

Source: ITC data base

Trade statistics reflects that India is better positioned in Mexican market than that of Costa Rica. In 2011, India's exports to the Mexico were valued at approximately US\$1337.9mn, which are nearly 4.5 times more than that of Costa Rica's export to the Mexico. In 2011, the Costa Rica's export to Mexico was valued at US\$307.1mn. Considering the gap between exports of India and Costa Rica to Mexico, it appears that competition is not intense between the two countries in Mexican market.

A comparison of top ten export segments shows that the two countries compete with each other in three product segments, namely electrical, electronic equipment; machinery, nuclear reactors, boilers, etc.; and plastics and articles thereof. Even in these three product segments India is better positioned than Costa Rica.

In non-competing segments like vehicles other than railway, tramway; organic chemicals; articles of apparel, accessories, not knit or crochet; manmade filaments; articles of apparel, accessories, knit or crochet; iron and steel; and oil seed, oleagic fruits, grain, seed, fruit, etc., nes, India may continue to remain a dominant player compared to Costa Rica (Table 3.2). However, in product segments namely animal, vegetable fats and oils, cleavage products, etc.; miscellaneous edible preparations; rubber and articles thereof; optical, photo, technical, medical, etc. apparatus; aluminium and articles thereof; raw hides and skins (other than furskins) and leather; and miscellaneous articles of base metal, India does not export much to the Mexican due to lack of comparative advantage in some of the segments.

Overall, it is expected that the agreement between Costa Rica and Mexico will not lead to much trade diversion, though India needs to have a close watch on the developments.

Table 3.2				
India's exports to Mexico (Exports in 2011: US\$1337.92mn)			Costa Rica's exports to Mexico (Exports in 2011: US\$307.06mn)	
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
243.7	19	Vehicles other than railway, tramway	...	...
195.471	16	Organic chemicals	...	...
153.731	56	Electrical, electronic equipment	9.772	-17
84.223	24	Machinery, nuclear reactors, boilers, etc	7.083	-21
63.868	14	Articles of apparel, accessories, not knit or crochet	...	...
47.777	40	Manmade filaments	...	...
43.454	95	Plastics and articles thereof	11.077	18
41.514	4	Articles of apparel, accessories, knit or crochet	...	...
41.311	19	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	...	...
39.653	12	Iron and steel	...	...
		Animal, vegetable fats and oils, cleavage products, etc.	165.269	4
		Miscellaneous edible preparations	26.647	269
		Rubber and articles thereof	17.28	27
		Optical, photo, technical, medical, etc. apparatus	11.134	76
		Aluminium and articles thereof	7.851	-19
		Raw hides and skins (other than furskins) and leather	5.232	-5
		Miscellaneous articles of base metal	5.172	-7
954.70(71%)		Top 10 Products (% of total exports)	266.52(87%)	

Source: ITC data base

Food for Thought

India does not have any PTA with either Costa Rica or with Mexico. Considering that proliferation of PTA is a new trade mantra and is here to continue, should India expedite a PTA negotiation with Mexico to protect its export interests in Costa Rica and Latin American countries?