

Dossier on Preferential Trade Agreements

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1. China-Costa Rica FTA in effect

The Free Trade Agreement (FTA) between China and Costa Rica has officially come into effect, following the signing of the agreement in April 2010.

Under the deal, which entered into force on August 01, 2011 at least 90 percent of goods from both countries will gradually enjoy zero tariff access to each other's markets.

Fruits and vegetables are among the Chinese products which will benefit from tariff reductions in Costa Rica, while pineapple juice and frozen orange juice from the Central American country will have preferential access to the Chinese mainland.

The treaty is the 10th of its kind to be signed by China, the country's Ministry of Trade said in a statement on its website following similar accords with Association of Southeast Asian Nations (ASEAN) member countries, Chile, Pakistan, New Zealand, Singapore, Peru and other free trade deals with Hong Kong, Macao and Taiwan.

China and Costa Rica have also reportedly achieved consensus on rules of origin, customs procedures, technical barriers, sanitary regulations and trade remedies.

Bilateral trade between the two nations rose by 19.2 percent year-on-year to US\$3.8bn in 2010, as Costa Rica has become one of China's major trading partners and investment destinations in Central America.

<http://www.fruitnet.com/content.aspx?tid=15&sid=44&cid=11811>

CUTS Comments

India's exports to Costa Rica were valued at US\$29.1mn in 2009. As compared to this, China's exports to Costa Rica during the same period was nearly 24 times that of India and was valued at about US\$687.8mn (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 China demonstrates that the two countries compete with each other in at least five product segments. These include organic chemicals; electrical, electronic equipment; iron and steel; machinery, nuclear reactors, boilers, etc; and vehicles other than railway, tramway. More importantly, all the competing products are in high value range, considering India's low volume of exports. Fortunately for India, there are some product segments in which India does not face any competition from China. These include pharmaceutical products; miscellaneous chemical products; paper & paperboard, articles of pulp, paper and board; rubber and articles thereof; and special woven or tufted fabric, lace, tapestry etc. India needs to exploit its comparative advantages in these segments. It is very likely that full implementation of this agreement could impact export of some major items from India. Absence of any similar trade agreement between India and the Costa Rica leaves a great scope for trade diversion in both short and medium terms.

Table 1.1			
India's exports to Costa Rica <i>Exports in 2009: US\$29.1mn</i>		China's exports to Costa Rica <i>Exports in 2009: US\$687.8mn</i>	
<i>Product</i>	<i>Value (US\$mn)</i>	<i>Product</i>	<i>Value (US\$mn)</i>
Pharmaceutical products	6.1	--	--
Miscellaneous chemical products	5.6	--	--
Organic chemicals	4.3	Organic chemicals	21.2
Electrical, electronic equipment	2.0	Electrical, electronic equipment	106.5
Paper & paperboard, articles of pulp, paper and board	2.0	--	--
Rubber and articles thereof	1.2	--	--
Iron and steel	1.2	Iron and steel	16.4
Special woven or tufted fabric, lace, tapestry etc.	0.9	--	--
Machinery, nuclear reactors, boilers, etc.	0.9	Machinery, nuclear reactors, boilers, etc.	74.2
Vehicles other than railway, tramway	0.6	Vehicles other than railway, tramway	19.0
		Railway, tramway locomotives, rolling stock, equipment	42.2
		Articles of iron or steel	24.2
		Cotton	18.8
		Furniture, lighting, signs, prefabricated buildings	13.9
		Plastics and articles thereof	13.6

India's exports to China in 2009 in value terms totalled approximately US\$10,370.0mn. In comparison, exports from Costa Rica to China was much lower at US\$766mn, or less than 10 percent that of India (a comparative list of top export products from India and Costa Rica to Chinese market in value terms is shown in the table 1.2).

The products exported by both India and Costa Rica to China compete with each other in at least five products' segments. However, in terms of value, the competition is in two segments; electrical, electronic equipment; and machinery, nuclear reactors, boilers, etc. While in the first case, Costa Rica has visible advantage over India; in the second case, India has advantage over Costa Rica. The situation might change as a result of the free trade agreement (FTA) coming into effect between China and Costa Rica. But considering that exports from India to Chinese market are diversified, the adverse impact on one segment can be compensated by increased exports in other segments. Overall, India appears to be in a much better position compared to Costa Rica.

Table 1.2			
India's exports to China <i>Exports in 2009: US\$10,370mn</i>		Costa Rica's exports to China <i>Exports in 2009: US\$765.5mn</i>	
<i>Product</i>	<i>Value (US\$mn)</i>	<i>Product</i>	<i>Value (US\$mn)</i>
Ores, slag and ash	4716.2	--	--
Pearls, precious stones, metals, coins, etc.	1111.3	--	--
Cotton	618.3	--	--
Organic chemicals	456.6	--	--
Iron and steel	420.6	Iron and steel	0.8
Copper and articles thereof	410.7	Copper and articles thereof	3.2
Machinery, nuclear reactors, boilers, etc.	340.3	Machinery, nuclear reactors, boilers, etc.	111.6
Salt, sulphur, earth, stone, plaster, lime and cement	256.1		
Electrical, electronic equipment	249.3	Electrical, electronic equipment	418.6
Plastics and articles thereof	203.8	Plastics and articles thereof	0.6
		Raw hides and skins (other than furskins) and leather	6.8
		Vegetable, fruit, nut, etc. food preparations	3.2
		Live trees, plants, bulbs, roots, cut flowers etc.	2.7
		Articles of leather, animal gut, harness, travel goods	1.1
		Aluminium and articles thereof	1.0

Food for Thought

China has advantage in terms of distance to Costa Rica. But can it make such a huge difference in the value of trade basket? Should India not export the commodities in which it has global comparative advantages? For instance, Costa Rica imports Cotton from China, but not at all from India, even though India has comparative advantage in Cotton.

2. Argentina ratifies Mercosur¹-Israel trade agreement

Argentina ratified the FTA reached between Mercosur and Israel, the first to be signed by the South American block with an outer zone party. The ceremony took place in Asunción, Paraguay, where the Argentine Ambassador Rafael Romá stamped the document together with Paraguayan Foreign Affairs Minister Jorge Lara Castro.

Argentina was the last of the group's four full members to ratify the agreement that eliminates some tariffs, facilitates trade and the movement of goods and promotes conditions for a fair competition in the newly created space.

“For Argentina ratification of the free trade accord is very significant: we full support advancing in the elimination of tariffs and increasing the level of trade with Israel”, said Ambassador Romá.

Trade between Argentina and Israel totalled over 200 million dollars in 2010.

Although Uruguay holds the Mercosur rotating chair, in the first half of 2011, the post was held by Paraguay, when most of the ratification processes of the agreement took place. Mercosur is currently negotiating trade agreements with the European Union and is holding talks with Korea, Japan, South Africa, Egypt and India among others.

<http://www.bilaterals.org/spip.php?article20097>

CUTS Comments

India's exports to Israel totalled approximately US\$1624.9mn in 2009. Compared to this, Mercosur's exports to Israel was less than 40 percent that of India and was valued at US\$619.7mn as shown in the table 2.1. A comparison of export baskets of India and Mercosur countries shows that there are three product segments in which Indian and Mercosur countries' exports compete with each other. However, except in the case of aircraft, spacecraft, and parts thereof, India is better placed in other two competing product segments. Also it appears that India's export basket is more diversified than that of Mercosur. The situation might change as a result of this trade agreement becoming fully operational. However, India's trade interests can be fully protected, if India signs a similar agreement with Israel. It is understood that the India-Israel FTA talks have entered the third round and once signed it has potential to increase trade volume to US\$12bn in the next five years from the current US\$5bn level.

India's exports to Israel Exports in 2009: US\$1624.9mn		Mercosur's exports to Israel Exports in 2009: US\$619.7mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Pearls, precious stones, metals, coins, etc	649.4	--	--
Mineral fuels, oils, distillation products, etc	427.3	--	--
Organic chemicals	156.5	Organic chemicals	9.0
Vehicles other than railway, tramway	44.3	--	--

¹ Mercosur include four countries, namely Argentine, Brazil, Paraguay, and Uruguay.

Plastics and articles thereof	41.5	--	--
Aircraft, spacecraft, and parts thereof	26.6	Aircraft, spacecraft, and parts thereof	89.7
Machinery, nuclear reactors, boilers, etc.	22.4	Machinery, nuclear reactors, boilers, etc.	13.7
Electrical, electronic equipment	22.2	--	--
Cotton	21.8	--	--
Optical, photo, technical, medical, etc. apparatus	17.6	--	--
		Meat and edible meat offal	278.0
		Sugars and sugar confectionery	43.9
		Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	36.1
		Wood and articles of wood, wood charcoal	19.3
		Fish, crustaceans, molluscs, aquatic invertebrates nes	18.7
		Vegetable, fruit, nut, etc. food preparations	16.6
		Coffee, tea, mate and spices	8.6

India's exports to Mercosur in 2009 totalled approximately US\$2107.1mn. Israel's export to Mercosur during the same period was much lower and was valued at approximately US\$807mn. This is about 38 percent that of India. (See the table 2.2 for a list of top 10 export items in value terms).

A comparison of major export items from India and Israel to Mercosur market shows that exports from India and Israel are competing in at least five product segments. However, India appears to be in a much better position than Israel in all the competing product segments. This may be adversely affected in future as the proposed agreement would open up new opportunities for Israeli products in the Mercosur market, especially in those segments in which it has a comparative advantage. Thus, the agreement could lead to significant trade diversion, and India needs to account for these while making its new trade strategy. It must think of ways to reduce the impact of this agreement through some counter measures.

Table 2.2			
India's exports to Mercosur <i>Exports in 2009: US\$2107.1mn</i>		Israel's exports to Mercosur <i>Exports in 2009: US\$807.3mn</i>	
<i>Product</i>	<i>Value (US\$mn)</i>	<i>Product</i>	<i>Value (US\$mn)</i>
Mineral fuels, oils, distillation products, etc.	523.9	--	--
Organic chemicals	246.1	Organic chemicals	69.3
Miscellaneous chemical products	139.5	Miscellaneous chemical products	86.8
Pharmaceutical products	130.9	Pharmaceutical products	26.0
Electrical, electronic equipment	115.7	Electrical, electronic equipment	88.6
Machinery, nuclear reactors, boilers, etc.	97.2	Machinery, nuclear reactors, boilers, etc.	44.7
Manmade staple fibres	89.6	--	--
Manmade filaments	75.2	--	--

Cotton	68.1	--	--
Iron and steel	64.0	--	--
		Fertilisers	352.7
		Optical, photo, technical, medical, etc. apparatus	33.6
		Plastics and articles thereof	16.6
		Tools, implements, cutlery, etc. of base metal	19.3
		Inorganic chemicals, precious metal compound, isotopes	11.5

Food for Thought

India has good economic relations with MERCOSUR and an evolving geo-economic relation with Israel. Considering the probability of India losing its market to Israel in Mercosur in the wake of such an agreement, should India not look forward to upgrade its existing PTA with Mercosur by focusing on other issues like services, investments, and competition policies?

3. US Senate committee approves Colombia FTA

The Senate Finance Committee voted to approve the US-Colombia FTA bill in a mock markup session, much to the satisfaction of Colombian President Juan Manuel Santos.

Senator Baucus, Chairman, Senate Finance Committee, was responsible for driving the initiative through the legislative body.

The House Ways and Means Committee and the Senate Finance Committee each held meetings for mock markups of the FTA bill.

Following tradition, the committees each vote on a series of non-binding amendments to the free trade agreements with Colombia, South Korea and Panama, then on the draft bill as a whole.

Both the Senate and House versions of the bill implement the bilateral free trade agreement signed by the US and Colombia in 2006. Colombia's Congress approved the deal in 2008. The agreement grants US exporters tariff-free access to the Colombian market.

Two recently expired US trade preference programmes, the Andean Trade Preferences Act and the Generalised System of Preferences, stand to be renewed by the passage of the legislation.

In an opening statement to the Senate Finance Committee's mock markup of the pending trade agreements, Chairman Max Baucus argued that the Obama administration has effectively dealt with the concerns that have delayed approval of the agreements.

<http://www.bilaterals.org/spip.php?article19849>

CUTS Comments

India's exports to Colombia were valued at approximately US\$361.4mn in 2009. In the same year, the US exports to Colombia was over 26 times that of India, and was valued at US\$9457.8mn. Considering the gap between exports of these two countries to Colombia, it appears that competition is one sided. India's exports basket looks quite small and limited compared to that of the US. In terms of product number, there are three product segments in which both the US and India compete in the Colombian market. India is way behind the US in all the competing products. The current agreement will further tilt the balance in favour of the US, and it might lead to significant trade diversion. See the table 3.1 for a list of top export items in value terms).

Table 3.1			
India's exports to Colombia Exports in 2009: US\$361.4mn		US exports to Colombia Exports in 2009: US\$9457.8mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Vehicles other than railway, tramway	124.4	Vehicles other than railway, tramway	355.6
Miscellaneous chemical products	48.6	--	--
Cotton	42.1	--	--
Organic chemicals	30.3	Organic chemicals	644.5
Pharmaceutical products	29.0	--	--
Manmade staple fibres	11.1	--	--
Iron and steel	8.9	--	--
Machinery, nuclear reactors, boilers, etc.	8.0	Machinery, nuclear reactors, boilers, etc.	2164.4
Ships, boats and other floating structures	5.9	--	--
Plastics and articles thereof	5.4	Plastics and articles thereof	535.1
Articles of iron or steel	4.4	--	--
		Mineral fuels, oils, distillation products, etc.	1194.0
		Electrical, electronic equipment	818.1
		Optical, photo, technical, medical, etc. apparatus	492.2
		Cereals	386.7
		Aircraft, spacecraft, and parts thereof	361.5
		Commodities not elsewhere specified	271.5

India's exports to the US in 2009 totalled approximately US\$19,128.2mn. Colombia's exports to the US during the same period were about 30 percent lower than that of India and were valued at US\$13,123.5mn. (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 Colombia shows that the two countries compete with each other in three product segments. In value terms, India is

relatively better placed in all the three segments (pearls, precious stones, metals, coins, etc; electrical, electronic equipment; and articles of apparel, accessories, knit or crochet). As of now, the competition appears to be significantly limited as only three product categories from India and Colombia compete with each other in the U.S. market, and more importantly in all the competing product segments, India appears to be in an advantageous position. However, the current agreement can tilt the balance in favour of Colombia. There is scope for trade diversion, if this agreement becomes fully operational.

Table 3.2			
India's exports to US <i>Exports in 2009: US\$19,128.2mn</i>		Colombia exports to US <i>Exports in 2009: US\$13,123.5mn</i>	
<i>Product</i>	<i>Value (US\$mn)</i>	<i>Product</i>	<i>Value (US\$mn)</i>
Pearls, precious stones, metals, coins, etc.	4576.1	Pearls, precious stones, metals, coins, etc.	1074.4
Articles of apparel, accessories, not knit or crochet	1524.5	--	--
Electrical, electronic equipment	1417.6	Electrical, electronic equipment	85.4
Pharmaceutical products	1170.1	--	--
Articles of apparel, accessories, knit or crochet	1164.7	Articles of apparel, accessories, knit or crochet	78.1
Organic chemicals	998.3	--	--
Other made textile articles, sets, worn clothing etc.	959.3	--	--
Machinery, nuclear reactors, boilers, etc.	936.4	--	--
Articles of iron or steel	811.9	--	--
Vehicles other than railway, tramway	391.9	--	--
		Mineral fuels, oils, distillation products, etc.	8883.9
		Live trees, plants, bulbs, roots, cut flowers etc.	843.5
		Coffee, tea, mate and spices	680.5
		Edible fruit, nuts, peel of citrus fruit, melons	266.2
		Articles of apparel, accessories, not knit or crochet	114.2
		Plastics and articles thereof	103.5
		Miscellaneous edible preparations	88.6

Food for Thought

For countries like Colombia, the US will continue to be the most important trading partner. However, in the light of this agreement, it is crucial for India to not only focus on enhancing bilateral engagement with Colombia, but more on strengthening its ties with the Andean Community of Nations which comprises of Bolivia, Colombia, Ecuador and Peru.