# **Dossier on Preferential Trade Agreements**

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# 1. Chile moves toward free trade agreement with Persian Gulf

Chile took another step toward developing a free trade agreement with Arab nations of the Persian Gulf, as the Chilean president and Kuwait's prime minister signed several diplomatic and economic agreements Tuesday.

Although Chile currently has various types of free trade agreements with 58 countries, representing 60% of the global population, it has yet to develop free trade agreements with the six Arab states of the Persian Gulf.

Chile currently has free trade agreements, or FTAs, with Canada, the U.S., the European Union, China, Mexico, Japan, South Korea, Australia and Peru, among others.

The nations that make up the Gulf Cooperation Council, or GCC, include some of the world's top oil producers, such as Kuwait, Saudi Arabia and the United Arab Emirates.

Only 2% of Chile's oil consumption comes from domestic production.

During the visit, Chilean President Sebastian Pinera said he hoped Kuwait would utilize its position as current term chair of the GCC to further Chile's interest in a free trade agreement with the GCC nations, which would "deepen ties of a political, economic, social and cultural nature."

In addition, Pinera and Kuwaiti Prime Minister Sheikh Nasser Mohammed al-Ahmed al-Sabah signed several diplomatic and economic agreements during the visit, including an agreement to promote the expansion of airline services between the two countries.



Sheikh Nasser emphasized future economic collaboration between the two nations, especially in terms of bringing Kuwait's private sector to Chile.

"We want our private sector to be everywhere in Chile," he added.

Source: http://online.wsj.com/article/BT-CO-20100727-717703.html

#### **CUTS Comments:**

India's exports to Chile totalled approximately US\$262mn in 2009 with the major exports being articles of iron or steel: vehicles other than railway, tramway; organic chemicals; pharmaceutical products; iron and steel; rubber and articles thereof; inorganic chemicals, precious metal compound, isotopes; articles of leather, animal gut, harness, travel goods; manmade staple fibres; and articles of apparel, accessories, not knit or crochet. Kuwait's exports to the world during the same period totalled US\$38.4bn, but their export to Chile was nil. The country's top ten exported products to the world include meat and edible meat offal; miscellaneous edible preparations; beverages, spirits and vinegar; cereals; animal, vegetable fats and oils, cleavage products; vegetable, fruit, nut, food preparations; sugars and sugar confectionery; residues, wastes of food industry, animal fodder; cereal, flour, starch, milk preparations and products; and cocoa and cocoa preparations. There appears to be no direct clash between products exported by India and Kuwait to Chile. Even a comparison of India's major exports to Chile, and Kuwait's exports to the world reveal no clash between the two countries in the international market, and thus there is little scope for trade diversion even if this FTA is fully implemented. Moreover, the existing Preferential Trade Agreement (PTA) signed in early 2005 between India and Chile to promote economic cooperation adequatey protects India's export to Chile from diversion.

India's exports to Kuwait in 2009 totalled approximately US\$751mn with the major exports being cereals; meat and edible meat offal; electrical, electronic equipment; articles of iron or steel; articles of apparel, accessories, not knit or crochet; nuclear reactors, boilers, machinery; iron and steel; residues, wastes of food industry, animal fodder; edible fruit, nuts, peel of citrus fruit, melons; and pearls, precious stones, metals, coins. Chile's exports to Kuwait during the same period totalled approximately US\$8mn with the top five exports being wood and articles of wood, wood charcoal; edible fruit, nuts, peel of citrus fruit, melons; pulp of wood, fibrous cellulosic material, waste; meat, fish and seafood food preparations nes; and vegetable, fruit, nut, food preparations. The products exported by both India and Chile to Kuwait do not compete with each other. This FTA would, however, open opportunities for Chile to export other products, in which it has a comparative advantage. A review of Chile's major export items to the global market indicates that exports from at least one sector in India (namely residues, wastes of food industry and animal fodder) to Kuwait will be threatened as a result of this FTA. India, which signed a Framework Agreement with GCC States in 2004, needs to ensure that the present deal does not hamper India's exports to Kuwait in that sector. On the aggregate, there is little chance of Indian exports to Chile getting affected due to this FTA.



### Food for Thought:

Chile is emerging as an important FDI destination in South America with FDI in 2008 pegged at US\$5.2bn. Sectors that attracted largest amount of FDI in Chile include mining and quarrying (US\$2.4bn); electricity, gas and water (US\$1.4bn); transport, storage and communication (US\$0.71bn); and finance (US\$0.34bn). There are also opportunities in other sectors. There could be potential gains for India from investing in sectors which are expected to gain as a result of the present FTA. Should Indian companies also go for setting up facilities and investing in Chile in order to leverage the mentioned FTA for economic gain?

## 2. Free trade pact attracts Aussie investors to RP

Australia-New Zealand-ASEAN Free Trade Agreement (ANZAFTA) has made the Philippines an attractive market for Australian traders especially those in the dairy business.

The agreement has significantly reduced trading barriers like tariff rates in the Philippines making it attractive for Australian traders to also see Philippines as a good market especially for their dairy products, said Ross Bray, senior trade and investment commissioner for Philippines and Micronesia in a recent interview.

"Some 96.4 percent of all products from the Philippines exported to Australia now have zero tariffs while the Philippines is slowly opening up some products like vegetables, manufactured goods, rice and sugar," said Bray of the ANZAFTA, which had improved the trade relationship between the Australia and Philippines.

He said most imports from Australia are wheat, live dairy animals like cattle and goats, medical and cosmetics, services and energy products.

"We hope to work more with the Philippines especially in promoting green products like investments in renewable energy which we already have in Australia as well as investments in mining which we can also teach responsible mining as practiced in Australia," Bray said.

Aside from these, Bray said that more Australian investors are also keen on the country's building and construction supply industry, banking, and the outsourcing services.

The ANZAFTA took effect on Jan. 1.

#### SISTER DEAL

In another development, the Cebu Chamber of Commerce and Industry (CCCI) will forge a sister-chamber agreement with the Chamber of Commerce and Industry Australia Philippines Inc. (CCIAP) tomorrow at the Cebu City Sports Club.

"We are honored and pleased to form another foreign sister-chamber agreement especially with CCIAP since they are the first local Chamber of Commerce and Industry in Australia whose charter focused on bilateral trade between Australia and the Philippines," said CCCI president Samuel Chioson said.



The CCCI will tour delegates of the CCIAP Philippines Business and Trade Mission 2010 leg in Cebu today to the different CCCI member companies which include Profood International Inc. and Coast Pacific Manufacturing Corp.

The CCIAP delegation will also meet with some government officials and other CCCI member companies tomorrow on a luncheon meeting, press conference and business matching.

"They will probably meet key business leaders on four industries: mining, agribusiness, tourism and education, all members of Cebu Chamber," Chioson said.

The trade mission, led by CCIAP President Connie de Cunha, started in Manila on July 17 with a round of meetings with key industry leaders, business traders and high level government officials in Manila, Makati and Quezon City.

Aside from business activities, the delegates will also undertake cultural tours, city sight tours and business tours in Cebu, which will help provide members of both chambers to build sustainable competitive advantages through expanded contacts and network as well as an increased understanding of the Philippine market and culture by CCIAP members.

**Source:** <a href="http://globalnation.inquirer.net/cebudailynews/enterprise/view/20100727-283408/Free-trade-pact-attracts-Aussie-investors-to-RP">http://globalnation.inquirer.net/cebudailynews/enterprise/view/20100727-283408/Free-trade-pact-attracts-Aussie-investors-to-RP</a>

#### **CUTS Comments:**

India's exports to Philippines totalled approximately US\$697mn in 2009 with the ten major exports being meat and edible meat offal; electrical, electronic equipment; iron and steel; vehicles other than railway, tramway; pharmaceutical products; rubber and articles thereof; oil seed, oleagic fruits, grain, seed, fruit; nuclear reactors, boilers, machinery; organic chemicals; and residues, wastes of food industry, animal fodder. Australia's and New Zealand's combined exports to Philippines totalled US\$1.27bn in 2009. The two countries' top ten exported products to Philippines include ores, slag and ash; pharmaceutical products; dairy products, eggs, honey, edible animal product nes; mineral fuels, oils, distillation products; and commodities not elsewhere specified (all from Australia); dairy products, eggs, honey, and edible animal products; wood and articles of wood, wood charcoal; paper & paperboard, articles of pulp, paper and board; meat and edible meat offal; and cereal, flour, starch, milk preparations and products (all from New Zealand). Philippines may prefer to import meat and edible meat offal and pharmaceutical products from these two countries rather than India. This will weaken India's trade prospects in Philippines, especially for products from the two indicated sectors.

India's exports to Australia and New Zealand in 2009 totalled approximately US\$1.6 bn with the major exports being pearls, precious stones, metals, coins; electrical, electronic equipment; nuclear reactors, boilers, machinery; pharmaceutical products; articles of iron or steel; aircraft, spacecraft, and parts thereof; mineral fuels, oils, distillation products; and commodities not elsewhere specified. Philippines' exports to Australia-New Zealand during the same period totaled approximately US\$325mn with the major exports being in electrical and electronic equipment; copper and articles thereof; aircraft, spacecraft, and parts thereof; optical, photo, technical and, medical, apparatus;



nuclear reactors, boilers, machinery; rubber and articles thereof; edible fruit, nuts, peel of citrus fruit, melons; vegetable, fruit, nut, food preparations; and lac, gums, resins, vegetable saps and extracts; nuclear reactors, boilers, machinery. Australia-New Zealand may prefer to import electrical and electronic equipment; nuclear reactors, boilers and machinery from Phillippines rather than India, with the conclusion of this FTA. This could impact India's trade prospects for these two products categories in Australia and New Zealand. There is, thus, scope for trade diversion which might result in losses for India.

### Food for Thought:

The markets in the Asia Pacific region, consisting of countries such as Australia, New Zealand, Philippines and others, is gradually getting more and more integrated. It is perhaps the right time for India to enter into more focused trade and investment relationship with countries in the region. Should India explore opportunities in areas in which it has comparative advantage or look to increase its competitiveness in other areas which have wider scope for cooperation in the region?

