Dossier on Preferential Trade Agreements

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1. Chance for Serbian export - Agreement on free trade between Serbia and Turkey in force

On the occasion of coming into force of the Agreement, Serbian Ministry of Economy pointed out that, in addition to simplification of the export of goods, it would introduce Turkey as potential significant source of raw materials for Serbian economy in certain domains, one of which is textile industry.

Agreement on free trade between Serbia and Turkey, which should increase the volume of exchange of goods between the two countries, Serbian export in particular, came in effect this week.

The Agreement will facilitate joint production and diagonal cumulation of origin of goods, which means that Serbian businessmen will be able to procure raw materials and semi-finished products in Turkey, process them in Serbia, and then export such goods to the EU, Turkey, and CEFTA countries, either free of duties or with preferential duties - it is emphasized in the statement by the Ministry of Economy of Serbia.

Ivan Jaksic, a representative of the Serbian Chamber of Commerce (SCC), told Beta agency that the greatest prospects for further improvement of business cooperation between Serbia and Turkey existed in textile industry, energy sector, automotive industry, food production and packing, information technologies, as well as in the production of glass and glass products.

Jaksic said that the value of exchange of goods between Serbia and Turkey during the first seven months of 2010 was USD 219.2m, while Serbian deficit amounted to 133.3 million dollars.

Serbia's export to Turkey in that period was doubled when compared to the same period in 2009 and it amounted to 42.9 million dollars, while the import from Turkey grew by 15.6% and reached 176.3 million dollars - Jaksic specified.

He pointed out that six out of ten most significant products in Serbian export to Turkey were on the list of products that Turkey imported the most: steel and iron, boilers, machines and appliances, plastic mass, various chemical products, copper and copper products, paper and cardboard.

Jaksic announced that SCC would organize Serbian-Turkish Business Forum on September 24th in association with the Istanbul Industrial Chamber and the Turkish International Business Cooperation Board.

The aim of the meeting is to enable Serbian businessmen to lead business talks with the partners from Turkey in altered conditions - said the representative of SCC.

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One of the potentials of the Agreement is also the size of the new expanded market since Turkey has 72.5m citizens - said the Ministry.

http://www.bilaterals.org/spip.php?article18034

CUTS Comments:

India's exports to Turkey totalled approximately US$1,279mn in 2009 with ten major exports being organic chemicals; manmade staple fibres; cotton; vehicles other than railway, tramway; tanning, dyeing extracts, tannins, derivs, pigments etc; mineral fuels, oils, distillation products, etc; plastics and articles thereof; machinery, nuclear reactors, boilers, etc; iron and steel; manmade filaments. Serbia's exports to Turkey during the same period totalled a little over US$45mn, with major ten products being iron and steel; rubber and articles thereof; copper and articles thereof; paper & paperboard, articles of pulp, paper and board; machinery, nuclear reactors, boilers, etc; edible vegetables and certain roots and tubers; cereals; inorganic chemicals, precious metal compound, isotopes; plastics and articles thereof; raw hides and skins (other than furskins) and leather. There appears to be no direct clash between products exported by India and Serbia to Turkey except in the case of machinery, nuclear reactors, boilers, etc. Even in this case, in terms of its overall importance, it appears insignificant (it ranks seventh in value terms in the major export commodities to Turkey). Thus there is little scope for trade diversion. Moreover, India is also moving forward and is likely to have a trade agreement with Turkey in near future, which could neutralize any such adverse impact.

India's exports to Serbia in 2009 totalled approximately US$13mn with the major exports being organic chemicals; cereals; pharmaceutical products; tobacco and manufactured tobacco substitutes; articles of apparel, accessories, not knit or crochet; vehicles other than railway, tramway; stone, plaster, cement, asbestos, mica, etc *articles; cotton; machinery, nuclear reactors, boilers, etc; coffee, tea, mate and spices. Turkey's exports to Serbia during the same period totalled approximately US$584mn with the major exports being articles of apparel, accessories, knit or crochet; articles of apparel, accessories, not knit or crochet; machinery, nuclear reactors, boilers, etc; knitted or crocheted fabric; cotton; plastics and articles thereof; paper & paperboard, articles of pulp, paper and board; edible fruit, nuts, peel of citrus fruit, melons; articles of iron or steel; electrical, electronic equipment The products exported by both India and Turkey to Serbia do not compete with each other except in one product such as machinery, nuclear reactors, boilers, etc. This, however, is very small. Even though the new agreement would open window of opportunities for Turkey to export more products, in which it has a comparative advantage, the agreement would not lead to any significant trade diversion. Besides, India has also signed a Bilateral Trade and Economic Cooperation Agreement signed in 2006, which could neutralise any such adverse impact.*

Food for Thought:

Turkey is considered to be the bridge between Europe and Asia. It connects markets of Asia and the Europe. Turkey has also emerged as an important investment destination. A total FDIs inflow in 2008 was recorded at over $14.6bn. India's increased economic and trade relationship with Turkey might help it to penetrate the markets of West Asia and Eastern Europe more effectively. Should India enter into a preferential trade agreement with Turkey?

2. Canada introduces bill to enact Panama free trade agreement

Canadian Trade Minister Peter Van Loan introduced legislation today to implement the country's free-trade agreement with Panama.

The trade agreement was signed in May, and will give Canadian companies access to the government procurement market in the Central American country, including the expansion of the Panama Canal, Van Loan said at the time.

http://www.bilaterals.org/spip.php?article18174

CUTS Comments:

India's exports to Panama totalled approximately US$107mn in 2009 with ten major exports being ships, boats and other floating structures; articles of apparel, accessories, knit or crochet; articles of apparel, accessories, not knit or crochet; other made textile articles, sets, worn clothing etc; articles of iron or steel; pearls, precious stones, metals, coins, etc; rubber and articles thereof; tobacco and manufactured tobacco substitutes; electrical, electronic equipment; pharmaceutical products. Canada's exports to Panama during the same period constituted a very small fraction of its total exports. Out of total exports of over $315bn, exports worth only $75mn entered the Panama market. Canada's top ten exports to Panama included pharmaceutical products; machinery, nuclear reactors, boilers, etc; vehicles other than railway, tramway; edible vegetables and certain roots and tubers; electrical, electronic equipment; vegetable, fruit, nut, etc food preparations; meat and edible meat offal; paper & paperboard, articles of pulp, paper and board; optical, photo, technical, medical, etc apparatus; wood and articles of *wood, wood charcoal. India and Canada compete with each other in two products' segments, namely electrical, electronic equipment and pharmaceutical products. In other products segments, there appears to be not much direct clash between products exported by India and Canada. Thus there is little scope for trade diversion even if this agreement is fully implemented. As far as Canada gaining access to government procurement market and competition intensifying thereof is concerned, India has nothing to loose, as it is not a player in that market. India should thus focus on the two identified segments (electrical, electronic equipment and pharmaceutical products), which could be adversely impacted by this new trade agreement between Canada and Panama.*

India's exports to Canada in 2009 totalled approximately US$1172mn with the major exports being organic chemicals; articles of apparel, accessories, knit or crochet; articles of apparel, accessories, not knit or crochet; pearls, precious stones, metals, coins, etc; articles of iron or steel; other made textile articles, sets, worn clothing etc; machinery, nuclear reactors, boilers, etc; fish, crustaceans, molluscs, aquatic invertebrates nes; pharmaceutical products; electrical, electronic equipment. Panama's exports to Canada during the same period was very small and totalled a little over US$7mn with the major exports being pearls, precious stones, metals, coins, etc; fish, crustaceans, molluscs, aquatic invertebrates nes; coffee, tea, mate and spices; cocoa and cocoa preparations; cereal, flour, starch, milk preparations and products; edible fruit, nuts, peel of citrus fruit, melons; products of animal origin, nes; wood and articles of wood, wood charcoal; miscellaneous edible preparations; pharmaceutical products. The products exported by both India and Panama to Canada compete with each other in at least three areas such as pearls, precious stones, metals, coins, etc; fish, crustaceans, molluscs, aquatic invertebrates nes; and pharmaceutical products. In terms of value, the prospects of pearls, precious stones, metals, coins, etc could be hit hardest compared to other two products' segments as a result of implementation of this agreement could be adversely impacted. It could lead to significant trade diversion.

Food for Thought:

In the list of top ten products of India to Panama and Panama to Canada, there is one product segment (pharmaceutical products), in which Panama is both an importer and at the same time an exporter. Since Indian companies are relatively better placed to produce and supply these products at globally competitive rates, should Indian pharmaceutical companies enter into joint ventures with the local companies to gain from this trade agreement? Should government of India facilitate investments by Indian pharmaceutical companies in Panama?

3. Peru-Thailand trade agreement comes into force in first half 2011

Peru's Ministry of Foreign Trade and Tourism (Mincetur) announced that the Early Harvest Protocol signed by Peru and Thailand in 2005 would enter into force in the first half of next year.

According to Deputy Minister of Foreign Trade, Carlos Posada, Peru and Thailand signed an Early Harvest Protocol in November 2005 as the first outcome of the negotiations they were pursuing with a view to the conclusion of a free trade agreement.

However, the implementation process was delayed because of political instability in Thailand in 2006-2009.

"These political problems forced the Thai Parliament to dissolve, and the agreement process was disrupted," he added.

However, the items specified in the agreement changed over the years and some of them were adapted to the new situation.

He recalled that Peru-Thailand negotiations were held on the basis of the Harmonized System (HS) 2005 (HS 2005), but some custom items have been modified.

http://www.bilaterals.org/spip.php?article18182

CUTS Comments:

India's exports to Thailand totalled approximately US$1710mn in 2009 with ten major exports being pearls, precious stones, metals, coins, etc; electrical, electronic equipment; residues, wastes of food industry, animal fodder; organic chemicals; iron and steel; machinery, nuclear reactors, boilers, etc; vehicles other than railway, tramway; copper and articles thereof; mineral fuels, oils, distillation products, etc; fish, crustaceans, molluscs, aquatic invertebrates nes. Peru's exports to Thailand during the same period constituted a very small fraction of total exports. Out of total exports of over $26.7bn, exports worth only $50mn entered the Thailand market. Peru's top ten exports to Thailand included ores, slag and ash; residues, wastes of food industry, animal fodder; fish, crustaceans, molluscs, aquatic invertebrates nes; edible fruit, nuts, peel of citrus fruit, melons; animal, vegetable fats and oils, cleavage products, etc; copper and articles thereof; zinc and articles thereof; aluminium and articles thereof; wool, animal hair, horsehair yarn and fabric thereof; salt, sulphur, earth, stone, plaster, lime and cement. India and Peru compete with each other in two products' segments, namely copper and articles thereof; fish, crustaceans, molluscs, aquatic invertebrates nes. In other major products segments, there appears to be not much direct clash between products exported by India and Peru. There is thus limited scope for trade diversion even if this agreement is fully implemented. Moreover, the risk stands further reduced because of India's existing FTA with Thailand. India, should, however, focus on the two identified segments (copper and articles thereof; fish, crustaceans, molluscs, aquatic invertebrates nes), which could be adversely impacted by this new trade agreement between Peru and Thailand.

India's exports to Peru in 2009 was small and totalled approximately US$217mn with the major exports being cotton; iron and steel; vehicles other than railway, tramway; pharmaceutical products; rubber and articles thereof; plastics and articles thereof; manmade staple fibres; electrical, electronic equipment; organic chemicals; machinery, nuclear reactors, boilers, etc. Thailand's exports to Peru during the same period was smaller than India and totalled a little over US$96mn with the major exports being vehicles other than railway, tramway; machinery, nuclear reactors, boilers, etc; rubber and articles thereof; electrical, electronic equipment; plastics and articles thereof; articles of iron or steel; toys, games, sports requisites; manmade filaments; manmade staple fibres; optical, photo, technical, medical, etc apparatus. The products exported by both India and Thailand to Peru compete with each other in five products' segments *such as vehicles other than railway; rubber and articles thereof; plastics and articles thereof; manmade staple fibres; electrical, electronic equipment. In terms of value, these five products could pose a serious challenge to prospects of exports from India. It could lead to significant trade diversion, and therefore India must take initiatives to reduce the impacts of this agreement on Indian exports.*

Food for Thought:

Recently Peru has shown interests to promote Indian investments in its economy. It has also shown interest in signing multiple agreements including a bilateral Free Trade Agreement (FTA). On the other hand, India has also indicated its keenness to invest in Peru's hydrocarbon, mineral, pharmaceutical and agriculture sectors through joint ventures and deepen the economic engagement with the South American country. Would a Free Trade Agreement between India and Peru pave way for greater trade and investment cooperation in the region? Should Indian companies strengthen their presence in South America by signing joint venture and other investment deals with Peruvian economy?