

# Dossier on Preferential Trade Agreements

**April-June 2011**  
**(Vol. V, No. 2)**

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## Table of Contents

- [1. US, Colombia reach deal on key free trade pact](#)**
- [2. Peru sees FTAs with Panama, Costa Rica coming into force in January 2012](#)**
- [3. Colombian FTA with Switzerland starts July 1](#)**

### **1. US, Colombia reach deal on key free trade pact**

After weeks of intense negotiations, the United States and Colombia have reached a deal on a free trade pact that the White House says is a vital part of President Barack Obama's economic agenda.

The administration said the agreement came together after the Colombians agreed to offer greater protections for workers and union leaders, an area of key concern for the U.S. It estimates final pact will boost U.S. exports to Colombia by more than \$1 billion per year and could support thousands of American jobs.

The deal has bipartisan support in Congress, which must approve the agreement before it can be implemented. Republican lawmakers have used the pact as a political bargaining chip, threatening to block the confirmation of a new commerce secretary and hold up final passage of another trade deal with South Korea if the administration did not finalize a pact with Colombia, as well as another pending agreement with Panama.

Completing the Colombia deal could increase pressure on the Panamanian government to address outstanding issues that remain in those negotiations, administration officials said. U.S. concerns with Panama are focused on the transparency of tax laws there, though officials say Panama will likely pass a tax-information exchange agreement that could end the stalemate by the end of this month.

Under the agreement with Colombia, 80 percent of consumer and industrial products the U.S. exports to Colombia will become duty-free, with the remaining tariffs phased out over the next 10 years. More than half of U.S. agriculture exports to Colombia would also become duty-free, with almost all tariffs eliminated within 15 years.

*(<http://www.bilaterals.org/spip.php?article19329>)*

### CUTS Comments

India's exports to Colombia were valued at US\$ 361.4mn in 2009. US exports to Colombia during the same period were valued at about US\$ 9457.8mn (a comparative list of India's as well as United States' top exports items to Colombia is given in the Table 1.1).

A comparison of major export items from India and the United States reveals that the two countries compete with each other in at least four sectors and in all such sectors the US seems to have higher competitiveness.

India's exports in the category of vehicles other than railway, tramway is relatively better. But India still has advantage in the sectors of miscellaneous chemical products, cotton, and pharmaceutical products.

Though any CECA or FTA between India and Colombia is not in place, several agreements on mutual cooperation have already been signed and are in force. Thus, implementation of this agreement will not have much impact on India's exports to Colombia.

Table 1.1

India's exports to Colombia Exports in 2009: US\$361.4mn		U.S. 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	11.0	--	--
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	616.2
		Mineral fuels, oils, distillation products, etc	1193.9
		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

In 2009 India's exports to the United States was approximately US\$19,128mn, while exports from Colombia to the United States was at US\$13,123.5mn (a comparative list of top export products from India and Colombia is shown in the Table 1.2).

*The products exported by both India and Colombia to the United States compete with each other in at least three products segments. In the case of pearls, precious stones, metals, coins, etc, electrical, electronic equipment and articles of apparel, accessories, knit or crochet India appears to be in an advantageous position.*

*Also, India has exceptional advantage in exports of articles of apparel, accessories, not knit or crochet, pharmaceutical products, and organic chemicals.*

*On the other hand, Colombia has exceptional advantage in mineral fuel, oils, distillation products, etc, live trees, plants, bulbs, roots, cut flowers, etc and coffee, tea, mate and spices.*

*Not much challenge is foreseen in the near future for Indian exports to the United States. At this stage, it can be said that the scope for trade diversion is quite limited, given the trade complementarity between India and the United States.*

Table 1.2

India's exports to US <i>Exports in 2009: US\$19,128mn</i>		Colombia's exports to US <i>Exports in 2009: US\$13,123.5mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
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	103.4
		Miscellaneous edible preparations	88.6

### ***Food for Thought***

*Even though some trade complementarity exists, yet the share of bilateral trade between India and Colombia is only 0.17 percent of India's total trade. A critical issue remains how to leverage these cultural ties to boost bilateral trade.*

*Can it be done through a well-designed mechanism of public and cultural diplomacy, which can in fact help in confidence building among traders from both sides and thus facilitate trade? Also, even if an FTA or CECA is proposed between India and Colombia, the factors like distance and trade routes will have significant impact on bilateral trade.*

## **2. Peru sees FTAs with Panama, Costa Rica coming into force in January 2012**

Peru's free trade agreements (FTAs) with Panama and Costa Rica are expected to come into force in January 2012, according to the Andean country's Foreign Trade and Tourism Ministry.

Peru has recently inked agreements with Panama and Costa Rica as part of free trade negotiations with a group of five Central American countries, which also include Guatemala, El Salvador and Honduras.

Peru's Deputy Trade Minister Carlos Posada said Wednesday that Peru expects to conclude talks with Guatemala at next week's bilateral meeting, while there are still outstanding issues in the negotiations with El Salvador and Honduras.

Posada commented that "Guatemala wants better benefits for its sugar exports, but it is very defensive on industrial and agricultural matters, where Peru has important export products such as cookies, flour, pasta and plastics."

As for negotiations with Panama and Costa Rica, Posada said that "although Peru did not achieve its planned tariff cuts on some products, good agreements have been reached."

Under the pact, 93.1 per cent of national exports to Panama will have immediate duty-free access or in a maximum of five years. Meanwhile, 99.2 per cent of imports from Panama will be liberalized in five years or less.

*(<http://www.bilaterals.org/spip.php?article19451>)*

### ***CUTS Comments***

*India's export to Panama and Costa Rica was US\$136.6mn in 2009. Compared to this, Peru's exports to the two countries was also relatively equal amounting to US\$137.4mn as shown in Table 2.1.*

*India competes with Peru in the markets of Panama and Costa Rica in three product segments namely electrical, electronic equipment, articles of apparel, accessories, knit or crochet, and articles of iron or steel.*

*Moreover, in relative terms, India enjoys an advantage in the segments of pharmaceutical products, rubber and articles thereof, ships, boats and other floating structures, and articles of apparel, accessories, not knit or crochet. Peru has an*

*advantage over India in segments like mineral fuels, oils, distillation products, etc, plastics and articles thereof, and meat, fish and seafood preparations.*

*Thus, there is not much competition between the two countries as far as their export to the markets of Panama and Costa Rica is concerned, and also there seems to be no threat to India's interests.*

Table 2.1

India's exports to Panama and Costa Rica <i>Exports in 2009: US\$136.6mn</i>		Peru's exports to Panama and Costa Rica <i>Exports in 2009: US\$137.4mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Pharmaceutical products	10.8	--	--
Electrical, electronic equipment	6.6	Electrical, electronic equipment	5.2
Rubber and articles thereof	6.2	--	--
Ships, boats and other floating structures	21.2	--	--
Articles of apparel, accessories, knit or crochet	14.8	Articles of apparel, accessories, knit or crochet	23.4
Articles of apparel, accessories, not knit or crochet	7.0	--	--
Other made textile articles, sets, worn clothing etc	6.2	--	--
Articles of iron or steel	5.3	Articles of iron or steel	2.5
Pearls, precious stones, metals, coins, etc	5.3	--	--
Tobacco and manufactured tobacco substitutes	4.6	--	--
		Mineral fuels, oils, distillation products, etc	45.9
		Plastics and articles thereof	7.9
		Meat, fish and seafood food preparations nes	5.1
		Explosives, pyrotechnics, matches, pyrophorics, etc	3.1
		Milling products, malt, starches, inulin, wheat gluten	1.7
		Fish, crustaceans, molluscs, aquatic invertebrates nes	1.6
		Cereal, flour, starch, milk preparations and products	1.5

*India's exports to Peru in 2009 amounted to approximately US\$217.5mn. Panama's and Costa Rican exports (taken together) to Peru were valued at approximately US\$ 167.3mn (See Table 2.2 for a list of top export items).*

*A comparison of export items from India, on the one hand, and Panama and Costa Rica, on the other, to Peru shows that there is competition in at least three major export segments. Panama and Costa Rica exports to Peru seem to be more diversified. An interesting point to here is that Panama and Costa Rica together are faring better than India in the Peruvian market in terms of export of pharmaceutical products, which happens to be among the top sectors of global comparative advantage for India.*

Moreover, some of the sectors in which India has advantage include cotton, iron and steel, vehicles other than railway, tramway, and rubber and articles thereof. Also, Panama and Costa Rica have advantage in segments like tanning, dyeing extracts, tannins, derives, pigments, etc, footwear, gaiters and the like, parts thereof, articles of apparel, accessories, not knit or crochet, and essential oils, perfumes, cosmetics, toiletries.

Though for India sectors like pharmaceutical products, electrical and electronic equipment, and machinery, nuclear reactors, boilers, etc may be affected, but it most unlikely that the agreement could lead to significant trade diversion.

Table 2.2

India's exports to Peru <i>Exports in 2009: US\$271.5mn</i>		Panama and Costa Rica's exports to Peru <i>Exports in 2009: US\$167.3mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Cotton	51.8	--	--
Iron and steel	30.4	--	--
Vehicles other than railway, tramway	27.0	--	--
Pharmaceutical products	16.6	Pharmaceutical products	30.9
Rubber and articles thereof	12.9	--	--
Plastics and articles thereof	9.5	--	--
Manmade staple fibres	8.9	--	--
Electrical, electronic equipment	8.2	Electrical, electronic equipment	19.4
Organic chemicals	8.1	--	--
Machinery, nuclear reactors, boilers, etc	7.6	Machinery, nuclear reactors, boilers, etc	9.2
		Optical, photo, technical, medical, etc apparatus	3.1
		Tanning, dyeing extracts, tannins, derivs, pigments etc	20.9
		Footwear, gaiters and the like, parts thereof	13.9
		Articles of apparel, accessories, not knit or crochet	12.5
		Essential oils, perfumes, cosmetics, toiletries	9.2
		Articles of apparel, accessories, knit or crochet	6.2
		Articles of leather, animal gut, harness, travel goods	4.0

### ***Food for Thought***

India's engagements with Panama and Costa Rica have been cordial and evolutionary. Considering its advantage in pharmaceutical products, will it be beneficial for India to engage with them in this sector?

Moreover, Peru is endowed with sizeable hydrocarbon and mineral wealth which contributes close to about 65 percent of its total exports. Considering India's energy

*dependence, is it not the right time for India to go for bilateral cooperation to invest in the development of oil and gas infrastructure in Peru?*

### **3. Colombian FTA with Switzerland starts July 1**

Colombia's free trade agreement with Switzerland will enter into force from July 1, making the European nation the first developed country to sign such an agreement with Colombia.

The treaty, ratified by the Colombian Congress in December 17, 2009, will offer Colombia access to a market of some 7.6 million people with an average per capita income of \$43,000 a year.

It is a significant acknowledgement of years of increasing trade between the two countries. According to Ministry of Commerce, Industry and Tourism figures, Swiss-Colombian trade bordered around \$300 million from 2003 to 2005.

By 2008 this had risen to \$807 million, while in 2009 the two nations surpassed the \$1 billion barrier.

The Colombian sectors expected to benefit most from the deal are the mining and chemical sectors, which provide the largest exports to Switzerland.

The largest Swiss imports have thus far been machinery and equipment, constituting 45% of total Swiss imports to Colombia.

The Colombian-Swiss FTA forms part of the European Free Trade Association (EFTA), which also includes Iceland, Norway and Liechtenstein. Although developed and signed jointly, the procedures for implementation are different in each country and the levels of progress are staggered.

Accordingly, only Switzerland and Colombia have fulfilled the requirements which will put the FTA into force from July 1.

(<http://www.bilaterals.org/spip.php?article19540>)

#### **CUTS Comments**

*India's exports to Switzerland were valued at approximately US\$677.7mn in 2009. In the same year, Colombia's export to Switzerland is relatively higher as compared to that of India and was valued at US\$1,038.2mn.*

*More importantly, a comparison of top ten export items shows that India and Colombia compete with each other in the Swiss market in five product categories. In all the competing product categories, India is better placed in at least two segments: ores, slags and ash, and, clocks and watches and parts, thereof. On the other hand, Colombia is better placed in segments of pearls, precious stones, metals, coins, etc, mineral fuels, oils, distillation products, etc, and tanning, dyeing extracts, tannins, derives, pigments, etc (Table 3.1).*

However, it is evident that India has relative advantage in segments like organic chemicals, articles of apparel, accessories, knit or crochet, vehicles other than railway, tramway, and Machinery, nuclear reactors, boilers, etc. Relatively speaking Colombia has low-magnitude advantages in some segments including pharmaceuticals.

It is most likely that this agreement could tilt the balance in favour of Colombia especially in segments like pearls, precious stones, metals, coins, etc and mineral fuels, oils, distillation products, etc, both of which are segments in which India has relatively better comparative advantage as well as export competitiveness.

Table 3.1

India's exports to Switzerland Exports in 2009: US\$677.7.7mn		Colombia's exports to Switzerland Exports in 2009: US\$1038.2mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Pearls, precious stones, metals, coins, etc	161.0	Pearls, precious stones, metals, coins, etc	559.8
Organic chemicals	155.0	--	--
Articles of apparel, accessories, knit or crochet	72.9	--	--
Ores, slag and ash	36.2	Ores, slag and ash	6.2
Vehicles other than railway, tramway	30.9	--	--
Mineral fuels, oils, distillation products, etc	22.9	Mineral fuels, oils, distillation products, etc	341.9
Tanning, dyeing extracts, tannins, derivs, pigments etc	22.0	Tanning, dyeing extracts, tannins, derivs, pigments etc	120.8
Machinery, nuclear reactors, boilers, etc	55.0	--	--
Clocks and watches and parts thereof	17.4	Clocks and watches and parts thereof	12.4
Articles of leather, animal gut, harness, travel goods	15.8	--	--
Electrical, electronic equipment	13.1	--	--
		Albuminoids, modified starches, glues, enzymes	2.7
		Pharmaceutical products	2.4
		Edible fruit, nuts, peel of citrus fruit, melons	0.9
		Live trees, plants, bulbs, roots, cut flowers etc	0.7
		Sugars and sugar confectionery	0.3
		Articles of apparel, accessories, not knit or crochet	0.3

In 2009 India's export to Colombia was approximately US\$368.4mn, while Switzerland's export to Colombia was relatively lower and was valued at US\$269.2mn. As shown in Table 3.2, a comparison of top ten export items of India and Switzerland to Colombia depicts that the two countries compete with each other in three product segments and in value terms, and Switzerland is relatively better placed in all the three segments including pharmaceutical products.

Moreover, India has its advantage over Switzerland in the Colombian market in product segments like vehicles other than railway, tramway, miscellaneous chemical products, cotton, manmade staple fibres, and Iron and steel. Switzerland has advantage in coffee, tea, mate and spices, optical, photo, technical, medical apparatus, and pearls, precious stones, metals, coins, etc.

Though this agreement would not divert trade from India, but the segments of pharmaceuticals and pearls, precious stones, metals and coins remain a concern for India.

Table 3.2

India's exports to Colombia Exports in 2009: US\$368.4mn		Switzerland exports to Colombia Exports in 2009: US\$269.2mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Vehicles other than railway, tramway	124.4	--	--
Miscellaneous chemical products	48.6	--	--
Cotton	42.1	--	--
Organic chemicals	30.3	Organic chemicals	49.1
Pharmaceutical products	29.0	Pharmaceutical products	81.6
Manmade staple fibres	11.0	--	--
Iron and steel	8.9	--	--
Machinery, nuclear reactors, boilers, etc	8.0	Machinery, nuclear reactors, boilers, etc	24.0
Ships, boats and other floating structures	5.9	--	--
Plastics and articles thereof	5.4	--	--
		Coffee, tea, mate and spices	54.9
		Optical, photo, technical, medical, etc apparatus	39.4
		Pearls, precious stones, metals, coins, etc	15.7
		Clocks and watches and parts thereof	12.9
		Essential oils, perfumes, cosmetics, toiletries	12.8
		Tanning, dyeing extracts, tannins, derivs, pigments etc	10.8
		Electrical, electronic equipment	10.5

### Food for Thought

This agreement is to be analysed with respect to its impact on India's engagements with Switzerland, particularly as under the EFTA-India FTA. Should we not focus on sectoral analysis especially on segments like pearls, precious stones, metals, coins, pharmaceuticals, petroleum products (under the segments of mineral fuels, oils, distillation products, etc) and also tanning, dyeing extracts, tannins, derives, pigments, etc in which India either has global competitiveness or has the potential to become more competitive.

*Also, since the share of Switzerland in India's total trade is evolving and is 3.27 percent as of 2009-10 data of Export-Import Data bank and there exists scope for diversification in trade basket between the two countries, should India not consider such matters as part of its FTA negotiations with EFTA (European Free Trade Area) in which Switzerland is a major economy?*