Dossier on Preferential Trade Agreements

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Table of Contents

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1. Mercosur bloc signs free-trade deal with Egypt

Mercosur, a South American trade bloc that groups big agricultural exporters Brazil and Argentina, signed a free-trade deal with Egypt on Monday, Argentina's industry minister said.

The agreement opens up a market of 76 million consumers to the trade bloc, which also includes Paraguay and Uruguay. Mercosur's member states also export cars and autoparts.

"This opens new opportunities for products that until now we didn't sell (to Egypt), such as cars, autoparts, medicines, paper products, chicken, fruit, among others," Industry Minister Debora Giorgi said in the northern city of San Juan, where a Mercosur summit is taking place.

The trade bloc is also negotiating trade pacts with Jordan, Morocco and the Gulf Cooperation Council (GCC), which groups Gulf states including Saudi Arabia and Qatar. The deal with Egypt took six years to wrap up.

Egypt is the world's biggest importer of wheat and Argentina is among the leading global exporters of the grain, although it did not export wheat to the North African country last year, according to official data.

The North African country is a significant buyer of Argentine corn and soy products. Egypt's exports to Brazil, the largest economy in Latin America, totaled $87.7 million in 2009, while its imports came to $1.53 billion, the Egyptian Trade Ministry reported.

http://www.bilaterals.org/spip.php?article17797

CUTS Comments:

India's exports to Mercosur consisting of Argentina, Brazil, Paraguay and Uruguay totalled approximately US$2107mn in 2009 with ten major exports being organic chemicals; miscellaneous chemical products; plastics and articles thereof; nuclear reactors, boilers, machinery etc; pharmaceutical products; electrical, electronic equipment; articles of apparel, accessories, not knit or crochet; mineral fuels, oils, distillation products, etc; and essential oils, perfumes, cosmetics, toiletries. Egypt's exports to the world during the same period totalled US$19.3bn, but their export to Mercosur countries was nil reflecting absence of any fruitful trade relations. The country's top five exported products to the world include edible fruit, nuts, peel of citrus fruit, melons; edible vegetables and certain roots and tubers; cereals; miscellaneous edible preparations; and oil seed, oleagic fruits, grain, seed, fruit, etc, nes. There appears to be no direct clash between products exported by India and Egypt to Mercosur countries. Even a comparison of India's major exports to Mercosur countries and Egypt'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 Framework Agreement signed in 2003 between India and Mercosur aimed to create conditions and mechanisms for by granting reciprocal tariff preferences can perhaps ensure non-diversion of trade between the two parties.

India's exports to Egypt in 2009 totalled approximately US$1374mn with the major exports being electrical, electronic equipment; mineral fuels, oils, distillation products, etc; nuclear reactors, boilers, machinery, etc; vehicles other than railway, tramway; and meat and edible meat offal. Mercosur countries' exports to Egypt during the same period totalled approximately US$2097mn with the major exports being meat and edible meat offal (3 countries); residues, wastes of food industry, animal fodder (3 countries); animal, vegetable fats and oils, cleavage products, etc (2 countries); dairy products, eggs, honey, edible animal product nes (2 countries); oil seed, oleagic fruits, grain, seed, fruit, etc, nes (2 countries); and dairy products, eggs, honey, edible animal product nes (2 countries). Other major items exported to Egypt from the region include, live animals; plastics and articles thereof; ores, slag and ash; sugars and sugar confectionery; aircraft, spacecraft, and parts thereof; inorganic chemicals, precious metal compound, isotopes; and cereals. The products exported by both India and Mercosur to Egypt do not compete with each other except in some products such as meat and edible meat offal. Even though this FTA would open further opportunities for Mercosur to export more products, in which it has a comparative advantage, the FTA would not lead to any significant trade diversion. A review of Mercosur countries' major export items to the global market indicates that Indian exports from some of the sectors (namely meat and edible meat offal and plastics and articles thereof) to Egypt could be adversely impacted as a result of this FTA.

Food for Thought:

Mercosur countries are emerging as important trade and investment destinations in South America. The region, due to its untapped agricultural resources, is also important from India's food security point of view. Additionally a significant number of products exported from the region are agri-based products. There could be potential gains for India from investing in sectors which are expected to gain as a result of increasing demand for agricultural products in the coming period. Should Indian government and companies give greater importance to the region, considering India's food requirement.

2. Syria, Turkey, Lebanon and Jordan Sign Quadripartite FTA

Turkey will join an economic bloc comprising of the Middle Eastern states such as Syria, Lebanon and Jordan ahead of the protracted accession to the EU. Last weekend, the four nations jointly agreed to follow up on creating a free trade zone to boost trade exchanges particularly to support SMEs of respective countries by eliminating trade barriers.

The Turkish Foreign Trade Minister Zafer Çaglayan hosted the meeting, and was attended by the Syrian Economy and Trade Minister Lamia Assi, the Jordanian Minister of Industry and Trade Amir al-Hadidi and the Lebanese Economy and Trade Minister Mohammad Safadi. The meet decided to form a committee, the Close Neighbors Economic and Trade Partnership Council (CNETAC) to further its cause.

The committee will work on to sketch a roadmap to determine priorities regarding areas of co-operation, and will hold its first meeting in September in Amman, Jordan. The meet further informed that a follow-up of the CNETAC ministerial meeting would be held in the Syrian capital of Damascus in December.

Çaglayan apprised that the goal of the bloc would be to increase and diversify trade and investments among the four countries by creating a liberal trade and investment environment with a modern infrastructure at the international level, free from all tariff and non-tariff barriers, encompassed by a geography which fed a population of 105mn and, as of 2009, had a combined GDP of $723bn, imports amounted to $176bn and exports to $131bn.

In response, Lamia Assi said a Syrian market worth $300bn was awaiting Turkey, and the country could achieve a 40 percent advantage in trade with other Arab countries including Saudi Arabia by sending goods via Syria as her state enjoyed customs-free with Arab nations due to the Arab Free Trade Agreement.

According to the Turkish Trade Minister, the bilateral trade between Turkey and Syria is $795mn three years ago, but is $1.8bn by 2009.

Turkey's proximity to the Middle Eastern countries has had invited criticisms from some quarters that the country was shifting its axis by turning away from the West and gradually becoming more of a Middle Eastern state. Çaglayan rebutted the argument by saying that Turkey's axis was with the world but not region-centric.

http://www.bilaterals.org/spip.php?article17796

CUTS Comments:
India's exports to Turkey totalled approximately US$ 1278mn in 2009 with five major exports being organic chemicals; manmade staple fibres; cotton; vehicles other than railway, tramway; tanning, dyeing extracts, tannins, derivs, pigments etc. Syria, Lebanon and Jordon's combined exports to Turkey during the same period constituted a very small fraction of total exports. Out of total exports of $12.8bn that originated from these countries, exports worth only $ 39mn (that only from Jordon) entered the Turkish market. No exports from Lebanon and Syria were recorded during the period. Jordon's

top five exports to Turkey included inorganic chemicals, precious metal compound, isotopes; beverages, spirits and vinegar; nuclear reactors, boilers, machinery, etc; cereals; and tobacco and manufactured tobacco substitutes. The three countries' top tem exported products to the world market include beverages, spirits and vinegar; cereals; coffee, tea, mate and spices; edible fruit, nuts, peel of citrus fruit, melons; edible vegetables and certain roots and tubers; inorganic chemicals, precious metal compound, isotopes; nuclear reactors, boilers, machinery, etc; sugars and sugar confectionery; tobacco and manufactured tobacco substitutes; and vegetable, fruit, nut, etc food preparations. There appears to be no direct clash between products exported by India and the three countries to Turkey. This is also corroborated by a comparison of India's major exports to Turkey, and these three countries' exports to the world which reveal no clash between the two groups in the international market, and thus there is little scope for trade diversion even if this agreement is fully implemented. India and Turkey have formed a joint study group (JSG) to evaluate the potential strengthening of commerce between themselves. The JSG is expected submit its report by early 2011. The success of this JSG might help India to reduce any damage that could from implementation of this Quadripartite FTA.

India's exports to Jordon, Lebanon and Syria in 2009 totalled approximately US$770mn with the major exports being electrical, electronic equipment (all 3 countries); nuclear reactors, boilers, machinery, etc (all 3 countries); meat and edible meat offal (2 countries); organic chemicals (2 countries); articles of iron or steel (1 country); stone, plaster, cement, asbestos, mica, etc articles (1 country); pearls, precious stones, metals, coins, etc (1 country); manmade staple fibres (1 country); and vehicles other than railway, tramway (1 country). Turkey's exports to these three countries during the same period totalled approximately US$2560mn with the major exports being iron and steel (all 3 countries); nuclear reactors, boilers, machinery, etc (all 3 countries); mineral fuels, oils, distillation products, etc (all 3 countries); articles of iron or steel (2 countries); electrical, electronic equipment (1 country); articles of apparel, accessories, not knit or crochet (1 country); plastics and articles thereof (1 country); and salt, sulphur, earth, stone, plaster, lime and cement (1 country). The products exported by both India and Turkey to these three countries compete with each other in at least three areas such as nuclear reactors, boilers, machinery, etc, electrical, electronic equipment, and articles of iron or steel. Exports from these sectors from India might be adversely impacted by implementation of this Quadripartite FTA. It could lead to significant trade diversion.

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 more effectively. Should India enter into a preferential trade agreement with Turkey?