

Dossier on Preferential Trade Agreements

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1. Korea, Turkey Sign Tentative FTA

The governments of Korea and Turkey provisionally signed a bilateral free trade agreement (FTA), completing three years of negotiations.

“Turkey is an emerging economy with high market potential and promising export market that is showing stable growth,” the Ministry of Knowledge Economy said. “With a geopolitically important location connecting Europe, Asia, the Middle East and Africa, Turkey will serve as a bridgehead for Korean businesses’ entrance to neighbouring markets.”

Tariffs on all industrial products traded between the two countries will be eliminated within seven years after the FTA takes effect. Korean exporters of autos, auto parts, petrochemicals, steel and textiles are expected to benefit most in the long term. Korea posted a surplus of US\$4.28bn in trade with Turkey in 2011, with US\$5bn in exports and US\$800mn in imports.

www.bilaterals.org/spip.php?article21237

CUTS Comments

India's exports to Turkey were valued at approximately US\$2,321mn in 2010. In the same year, Korea's export to Turkey was more than 1.6 times that of India, and was valued at US\$3,753mn.

Data clearly demonstrate that in value terms nearly 60 percent of Korea's export items in the top ten products compete with exports from India. It is observed that the two countries compete with each other in five products' segments, namely vehicles other than railway, tramway; plastics and articles thereof; iron and steel; manmade filaments; and machinery, nuclear reactors, boilers, etc. The new agreement between the two countries could further impact these five product segments adversely. In other non-competing segments, the new trade agreement might have little impact and will not lead to any

significant trade diversion. (See the table 1.1 for a list of top export items in value terms).

Table 1.1			
India's exports to Turkey Exports in 2010: US\$2,321.4mn		Korea's exports to Turkey Exports in 2010: US\$3,753.1mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Vehicles other than railway, tramway	233.8	Vehicles other than railway, tramway	882.6
Mineral fuels, oils, distillation products, etc.	222.9	--	--
Cotton	219.7	--	--
Organic chemicals	211.9	--	--
Manmade staple fibres	176.3	--	--
Plastics and articles thereof	163.7	Plastics and articles thereof	430.5
Iron and steel	142.3	Iron and steel	318.6
Manmade filaments	90.7	Manmade filaments	140.2
Machinery, nuclear reactors, boilers, etc	86.2	Machinery, nuclear reactors, boilers, etc	595.4
Tanning, dyeing extracts, tannins, derivs, pigments etc	77.3	--	--
Top 10 products (% of total exports)	1624.8 (70)	--	--
	Electrical, electronic equipment	277.3	
	Optical, photo, technical, medical, etc apparatus	181.7	
	Ships, boats and other floating structures	128.6	
	Rubber and articles thereof	127.1	
	Railway, tramway locomotives, rolling stock, equipment	107.4	
	Top 10 products (% of total exports)	3189.4 (85)	

India's exports to Korea were valued at approximately US\$3,635mn in 2010. In the same year, Turkey's export to Korea was less than 10 percent that of India, and was valued at US\$304.6mn. Considering the huge gap between exports of these two countries to Korea, it appears that there is not much competition between Indian and Turkish products in the Korean market. Even though, it is observed that five products from Turkey directly compete with exports from India, but in terms of value, the competition faced by the Indian products looks negligible. In all the competing products segments, value of Indian exports far exceeds that of exports from Turkey. These products include, mineral fuels, oils, distillation products, etc; cotton; iron and steel; organic chemicals; and machinery, nuclear reactors, boilers, etc.

Additionally, in segments such as aluminium and articles thereof, pearls, precious stones, metals, coins, etc; zinc and articles thereof; residues, wastes of food industry, animal fodder; and Sugars and sugar confectionery, there is no competition from Turkey for Indian products in the Korean market. Based on the nature of competition between products from India and Turkey, it can be said that the new agreement between Korea and Turkey might not lead to any significant trade diversion. (See the table 1.2 for a list of top export items in value terms).

Table 1.2

India's exports to Korea Exports in 2010: US\$3,635.4mn		Turkey's exports to Korea Exports in 2010: US\$304.6mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Mineral fuels, oils, distillation products, etc	1248.1	Mineral fuels, oils, distillation products, etc	90.2
Cotton	325.4	Cotton	7.3
Iron and steel	317.7	Iron and steel	7.5
Aluminium and articles thereof	294.2	--	--
Organic chemicals	252.3	Organic chemicals	15.6
Pearls, precious stones, metals, coins, etc	138		
Zinc and articles thereof	135.5	--	--
Residues, wastes of food industry, animal fodder	106.1	--	
Machinery, nuclear reactors, boilers, etc	96.5	Machinery, nuclear reactors, boilers, etc	20.0
Sugars and sugar confectionery	66.8	--	--
Top 10 products (% of total exports)	2980.6 82	--	--
		Vehicles other than railway, tramway	23.9
		Electrical, electronic equipment	15.3
		Salt, sulphur, earth, stone, plaster, lime and cement	8.3
		Ores, slag and ash	7.0
		Milling products, malt, starches, inulin, wheat gluten	6.4
		Top 10 products (% of total exports)	201.5 (66.1)

Food for Thought

Ores, slag and ash is one sector in which India has comparative advantage globally, but that does not constitute among India's exports to Korea, which otherwise Turkey is

exporting to Korea. Also, since India already has a Comprehensive Economic Partnership Agreement with Korea in place, so the impact on Indian exports will not be significant. However, India has to take a cautious approach in maintaining the size of its export basket with Korea given the US-Korea Free Trade Agreement (KORUS FTA) which has entered into force.

2. Japan, Peru Free Trade Agreement Takes Effect

An FTA between Peru and Japan went into effect that the Peruvian government says will increase bilateral commerce by at least 25 percent. Under the agreement, signed in May 2011, Japan and Peru will scrap tariffs on more than 99 percent of the value of goods traded between them within a decade.

Peru will lift tariffs on Japanese products such as large vehicles and televisions, while Japan will eliminates tariffs in stages on Peruvian imports such as copper and zinc, clothing, fishmeal and asparagus.

Katsuhito Miura, Head, Economic and Cooperation Department at the Japanese Embassy in Peru, said bilateral trade with Peru reached US\$3.5bn in 2011, 10 percent more than 2010, and is expected to increase further under the FTA.

www.bilaterals.org/spip.php?article21123

CUTS Comments

India's exports to Peru were valued at US\$398.9mn in 2010. As compared to this, Japan's export to Peru during the same period was more than double and was valued at about US\$996.8mn.

A comparison of major export items from India and Japan demonstrates that the two countries compete with each other in at least five product segments. These include vehicles other than railway, tramway; iron and steel; electrical, electronic equipment; rubber and articles thereof and organic chemicals. In value terms, the conflicting products constitute about 73 percent of the total value of top ten products from Japan. More importantly, in three out of five competing products, Japan has definitive edge over India (a comparative list of India's and Japan's top 10 products constituting more than 80 percent of exports from both the countries to Peru in value terms is given in the table 2.1).

Fortunately for India, there are five other product segments in which India does not face much competition from Japan. These include machinery, nuclear reactors, boilers, etc; mineral fuels, oils, distillation products, etc; optical, photo, technical, medical, etc. apparatus; commodities not elsewhere specified; and fish, crustaceans, molluscs, aquatic invertebrates nes. India needs to exploit its comparative advantages in these segments. It is very likely that full implementation of this agreement could further impact export of five major items from India. Absence of any similar trade agreement between India and the Peru leaves a significant scope for trade diversion in both short and medium terms. Trade relation between India and Peru is guided by four decade old Indo-Peru Trade Agreement signed in 1971. Peru has, however, recently shown interest in signing a commercial agreement with India to boost trade between the two countries. This could be expedited to guard interests of Indian exporters to Peru.

Table 2.1

India's exports to Peru <i>Exports in 2010: US\$398.9mn</i>		Japan's exports to Peru <i>Exports in 2010: US\$996.8mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Cotton	74.6	--	--
Vehicles other than railway, tramway	69	Vehicles other than railway, tramway	552.7
Iron and steel	49.9	Iron and steel	86.3
Electrical, electronic equipment	25.6	Electrical, electronic equipment	13.8
Plastics and articles thereof	25	--	--
Manmade filaments	20.5	--	--
Manmade staple fibres	20.4	--	--
Pharmaceutical products	19.5	--	--
Rubber and articles thereof	15.6	Rubber and articles thereof	67.8
Organic chemicals	8.1	Organic chemicals	4.8
Top 10 products (% of total exports)	335.7 (84)	--	--
		Machinery, nuclear reactors, boilers, etc.	74
		Mineral fuels, oils, distillation products, etc.	30
		Optical, photo, technical, medical, etc. apparatus	16.8
		Commodities not elsewhere specified	10.5
		Fish, crustaceans, molluscs, aquatic invertebrates nes	8.6
		Top 10 products (% of total exports)	865.3 (87)

India's exports to Japan were valued at approximately US\$4805mn in 2010. In the same year, Peru's export to Japan was less than 40 percent that of India, and was valued at US\$1790mn.

Considering the gap between exports of these two countries to Japan, it appears that the competition is not intense between the two countries in the Japanese market. However, it is also observed that the two countries compete with each other in four products' segments, namely mineral fuels, oils, distillation products, etc; residues, wastes of food industry, animal fodder; fish, crustaceans, molluscs, aquatic invertebrates nes and ores, slag and ash. But in three of the four competing products, India is better positioned than Peru. India needs to further strengthen its position in these three and other non-competing product segments to maintain its edge. Further, the impact of the new trade agreement could be effectively neutralised by the newly signed bilateral free trade

agreement between India and Japan which has provision to abolish duties on more than 90 per cent of trade for ten years. It can be, thus, said that the trade agreement between Japan and Peru will have very little impact on existing export trend and will not lead to any significant trade diversion. (See the table 2.2 for a list of top export items in value terms).

Table 2.2			
India's exports to Japan Exports in 2010: US\$4805.1mn		Peru's exports to Japan Exports in 2010: US\$1790.4mn	
Product	Value (US\$mn)	Product	Value (US\$mn)
Mineral fuels, oils, distillation products, etc.	1959.9	Mineral fuels, oils, distillation products, etc	24.5
Iron and steel	384.3	--	--
Residues, wastes of food industry, animal fodder	326.8	Residues, wastes of food industry, animal fodder	174.4
Fish, crustaceans, molluscs, aquatic invertebrates nes	299.9	Fish, crustaceans, molluscs, aquatic invertebrates nes	18.9
Pearls, precious stones, metals, coins, etc.	273.4	--	--
Ores, slag and ash	249.1	Ores, slag and ash	1391.7
Organic chemicals	175.3	--	--
Articles of apparel, accessories, not knit or crochet	111	--	--
Machinery, nuclear reactors, boilers, etc	98.1	--	--
Cotton	61.1	--	--
Top 10 products (% of total exports)	3938.9 (82)	Cocoa and cocoa preparations	
		Copper and articles thereof	71
		Zinc and articles thereof	36.5
		Coffee, tea, mate and spices	11.9
		Edible vegetables and certain roots and tubers	9.8
		Articles of apparel, accessories, knit or crochet	8.5
		Animal, vegetable fats and oils, cleavage products, etc.	8.3
		Top 2 products (% of total exports)	1755.5 (98)

Food for Thought

Peru has started developing strong economic relations with Asian countries. China continues to be Peru's largest trading partner despite Peru's proximity to US. Now that Japan has entered into FTA with Peru, it is high time that India should transform its Indo-Peru Trade Agreement of 1971 into full-fledged CECA with Peru.

3. South Korea-US FTA Comes Into Effect

The long-delayed KORUS FTA, which was originally signed in 2007, entered into force on March 15, 2012.

Under the agreement, nearly 95 percent of bilateral trade in consumer and industrial products will be duty-free within three years, with virtually all remaining tariffs eliminated within 10 years. In addition, some 64 percent of South Korea's agricultural imports from the US will be immediately duty-free, with most of the remaining tariffs and quotas being phased out over the first ten years.

The KORUS FTA also includes a number of significant commitments related to non-tariff measures that also came into force on March 15, including obligations related to motor vehicle safety and environmental standards, enhanced regulatory transparency, standard-setting, technology neutrality, and customs administration.

Strengthened protections for intellectual property rights also come into effect immediately, as do South Korean commitments to open up its US\$580bn services market. All of these commitments are backed by the agreement's strong enforcement provisions.

The South Korean government pointed out that the KORUS FTA is an extremely significant addition to the country's trade treaty network, and that, in particular, South Korea is the only country with FTAs with both the US and the EU.

However, given continued doubts about the agreement in some quarters, after its renegotiation in December 2010 at the insistence of the US, the government has also continued to stress that it will have to ensure that the KORUS FTA becomes as beneficial as possible for the country's economy.

It has, for example, promised to introduce official assistance for South Korean farmers, traders and small and medium enterprises (SMEs), which would be affected by imports of products following reduced tariffs and by the opening up of the local market to US investments.

South Korea's main opposition Democratic Party has maintained its opposition to the KORUS FTA, and said that it is now too favourable to the US and should be further renegotiated. It is particularly calling for the cancellation of the agreement's investor-state dispute (ISD) settlement clause. It has insisted it would cancel the FTA if it becomes the majority party in parliamentary elections.

With regard to the ISD settlement clause, which could subject South Korean companies, particularly SMEs, to attack from US companies on domestic regulations established for the protection of local industries, the government has reiterated that South Korea and the US plan to hold a meeting, within 90 days from the date the agreement comes into effect, and, in the meantime, is talking up the growth prospects arising out of the FTA.

According to a report recently quoted by President Lee Myung-bak, the KORUS FTA will not only increase South Korea's gross domestic product by 5.7 percent, but also create jobs for 350,000 people.

In the US, completion of the agreement has received support from both the Republican and Democrat parties. For example, the House of Representatives Ways and Means

Committee Chairman Dave Camp (R - Michigan) has recently stated that: “This is good news for US job-creators. Taking this final step will remove taxes on the manufacturing goods and agriculture products US companies export to South Korea, eliminate obstacles to US services exports, and address key non-tariff barriers that have prevented our workers and companies from competing on a level playing field in this rapidly growing market.”

“The promise of the KORUS FTA – including tens of thousands of export-supported jobs with better wages – will start to come home for American businesses and working families,” said the US Trade Representative Ron Kirk.” Entry into force of this agreement will open up South Korea’s US\$1tn economy for America’s workers, businesses, farmers, and ranchers, while also strengthening our economic partnership with a key Asia-Pacific ally.”

www.tax-news.com/news/South_KoreaUS_FTA_Comes_Into_Effect_54495.html

CUTS Comments

India's exports to the US were valued at approximately US\$23,587mn in 2010. In the same year, Korea's export to the US was more than double that of India, and was valued at US\$50,115mn.

Considering the huge gap between exports of these two countries to the US market, it appears that exports from India are significantly low compared to the US. Further, it is also observed that the two countries compete with each other in five products' segments, namely organic chemicals; electrical, electronic equipment; articles of iron or steel; machinery, nuclear reactors, boilers, etc; and vehicles other than railway, tramway.

In value terms, in four of the five competing products, exports from Korea are far in excess of value of Indian exports. The five competing products' segments could be further adversely affected by the new agreement. In other cases, the new trade agreement appears to have relatively low impact on existing export trend and will not lead to any 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 the US Exports in 2010: US\$23,587.4mn		Korea's exports to the US Exports in 2010: US\$50,115mn	
<i>Product</i>	<i>Value (US\$mn)</i>	<i>Product</i>	<i>Value (US\$mn)</i>
Pearls, precious stones, metals, coins, etc.	5106.4	--	--
Pharmaceutical products	1675	--	--
Articles of apparel, accessories, not knit or crochet	1486.1	--	--
Other made textile articles, sets, worn clothing etc.	1363.4	--	--
Organic chemicals	1304.8	Organic chemicals	966.6
Articles of apparel, accessories, knit or crochet	1301.1	--	--
Electrical, electronic	1290.2	Electrical, electronic equipment	14181.9

equipment			
Articles of iron or steel	1238.9	Articles of iron or steel	1636.2
Machinery, nuclear reactors, boilers, etc	1059.6	Machinery, nuclear reactors, boilers, etc.	8816.7
Vehicles other than railway, tramway	694.1	Vehicles other than railway, tramway	10833.6
Top 10 products (% of total exports)	16519.6 (70)	--	--
		Mineral fuels, oils, distillation products, etc.	3515.4
		Rubber and articles thereof	1463.4
		Optical, photo, technical, medical, etc. apparatus	1311.2
		Plastics and articles thereof	1111.1
		Iron and steel	982.2
		Top 10 products (% of total exports)	44818.3 (89)

India's exports to Korea were valued at approximately US\$3,635mn in 2010. In the same year, US' export to Korea was nearly 11 times more than that of India, and was valued at US\$38,844mn. Considering the gap between exports of these two countries to Korea, it appears that there is not much competition between the two countries in the Korean market, even though there are four product segments in which exports from India and the US compete with each other. The segments in which India and the US compete include mineral fuels, oils, distillation products, etc; iron and steel; organic chemicals; and machinery, nuclear reactors, boilers, etc.

The US is way ahead of India in all the competing products. These four product segments could be further adversely affected by the new agreement. In other cases, the new trade agreement will have relatively low impact on existing export trend and will not lead to any significant trade diversion. (See the table 3.2 for a list of top export items in value terms).

Table 3.2			
India's exports to Korea <i>Exports in 2010: US\$3,635.4mn</i>		US' exports to Korea <i>Exports in 2010: US\$38,843.8mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Mineral fuels, oils, distillation products, etc	1248.1	Mineral fuels, oils, distillation products, etc.	1518
Cotton	325.4	--	--
Iron and steel	317.7	Iron and steel	1146.3
Aluminium and articles thereof	294.2	--	--
Organic chemicals	252.3	Organic chemicals	2153.2
Pearls, precious stones, metals, coins, etc.	138	--	--
Zinc and articles thereof	135.5	--	--
Residues, wastes of food industry, animal fodder	106.1	--	--
Machinery, nuclear	96.5	Machinery, nuclear reactors,	6946.3

reactors, boilers, etc.		boilers, etc.	
Sugars and sugar confectionery	66.8	--	--
Top 10 products (% of total exports)	2980.6 (82)		
	Electrical, electronic equipment	5074.9	
	Optical, photo, technical, medical, etc. apparatus	2659.5	
	Aircraft, spacecraft, and parts thereof	2430.8	
	Cereals	1846.7	
	Plastics and articles thereof	1235.8	
	Vehicles other than railway, tramway	814.4	
	Top 10 products (% of total exports)	25825.9 (66.5)	

Food for Thought

Despite having a large trade basket with the US, India and US do not have a FTA in place. In fact, this is also altering US position as India's largest trading partner, which it no longer enjoys. It is time for the two countries to think seriously for working out a trade agreement, given the fact that KORUS and Trans-Pacific Partnership Agreement are something which has developed as key strategic interests for the US in the Asia-Pacific region.