

Dossier on Preferential Trade Agreements

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1. Trade with Mexico to double in five years thanks to FTA

The Ministry of Foreign Trade and Tourism (Mincetur) estimated Thursday that once the Free Trade Agreement (FTA) between Peru and Mexico comes into force trade will double in five years.

Between 2000 and 2010, bilateral trade rose at an average annual rate of 13 percent to US\$1.4 billion from US\$414 million.

The agreement, in terms of trade and services, covers financial and cross-border services, as well as temporary entry of people and the mutual recognition of qualifications.

Moreover, the investment sector includes guarantees to investors and access to an international arbitration mechanism.

Peruvian Trade and Tourism Minister Jose Luis Silva noted that the Mexican Senate approved the FTA with Peru on second vote after rejecting it on Wednesday and will come into force in the first quarter of 2012.

<http://www.bilaterals.org/spip.php?article20791>

CUTS Comments

India's exports to Peru were valued at US\$398.9mn in 2010. As compared to this, Mexico's export to Peru during the same period was nearly 2.5 times more than that of India and was valued at about US\$973.6mn (a comparative list of India's and Mexico's top 10 products constituting more than 80 percent of exports from both the countries to Peru in value terms is given in Table 1.1).

A comparison of major export items from India and Mexico 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;

plastics and articles thereof and pharmaceutical products. More importantly, all the competing products are in high value range, especially for India, considering its low volume of exports.

Fortunately for India, there are some product segments in which India does not face much competition from Mexico. These include cotton; manmade filaments; manmade staple fibres; rubber and articles thereof; and organic chemicals. 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 great 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 1.1

India's exports to Peru <i>Exports in 2010: US\$398.9</i>		Mexico's exports to Peru <i>Exports in 2009: US\$973.6mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Cotton	74.6	--	--
Vehicles other than railway, tramway	69.0	Vehicles other than railway, tramway	164.9
Iron and steel	49.9	Iron and steel	31.8
Electrical, electronic equipment	25.6	Electrical, electronic equipment	273.6
Plastics and articles thereof	25.1	Plastics and articles thereof	43.7
Manmade filaments	20.5	--	--
Manmade staple fibres	20.4	--	--
Pharmaceutical products	19.5	Pharmaceutical products	38.8
Rubber and articles thereof	15.6	--	--
Organic chemicals	13.1	--	--
Top 10 products (% of total exports)	333.4 (84)	--	--
		Machinery, nuclear reactors, boilers, etc	98.6
		Essential oils, perfumes, cosmetics, toiletries	66.0
		Inorganic chemicals, precious metal compound, isotopes	19.5
		Cereal, flour, starch, milk preparations and products	17.6
		Articles of iron or steel	16.2
		Top 10 products (% of total exports)	770.8 (80)

India's exports to Mexico in 2010 in value terms totaled approximately US\$767mn. In comparison, exports from Peru to Mexico was much lower at about US\$286mn, or less than 40 percent that of India (a comparative list of top export products from India and Peru to Mexican market in value terms is shown in Table 1.2).

The products exported by both India and Peru to Mexico compete in only one product segment, namely machinery, nuclear reactors, boilers, etc. Even in this segment, the value of export from India is nearly seven times more than that of Peruvian exports. India has advantage over Peru in almost all the products' segments. The comparative situation is unlikely to change even if the agreement comes fully into operation. Moreover, considering that exports from India to Mexican market are diversified, the adverse impact on one segment can be compensated by increased exports in other segments. Overall, India appears to be in a much better position compared to Peru.

Table 1.2

India's exports to Mexico <i>Exports in 2010: US\$766.9mn</i>		Peru's exports to Mexico <i>Exports in 2010: US\$285.7mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Organic chemicals	131.6	--	--
Vehicles other than railway, tramway	91.9	--	--
Articles of iron or steel	64.2	--	--
Articles of apparel, accessories, not knit or crochet	44.1	--	--
Electrical, electronic equipment	42.4	--	--
Machinery, nuclear reactors, boilers, etc	33.9	Machinery, nuclear reactors, boilers, etc	6.1
Manmade staple fibres	30.2	--	--
Articles of apparel, accessories, knit or crochet	29.9	--	
Manmade filaments	29.4	--	--
Miscellaneous chemical products	29.2	--	--
Top 10 products (% of total exports)	526.8 (69)	--	--
		Mineral fuels, oils, distillation products, etc	113.2
		Wood and articles of wood, wood charcoal	33.7
		Ores, slag and ash	24.8
		Coffee, tea, mate and spices	21.3
		Tanning, dyeing extracts, tannins, derivs, pigments etc	14.9
		Articles of apparel, accessories, knit or crochet	10.7

	Salt, sulphur, earth, stone, plaster, lime and cement	6.4
	Edible vegetables and certain roots and tubers	4.8
	Explosives, pyrotechnics, matches, pyrophorics, etc	4.1
	Top 10 products (% of total exports)	239.9 (84)

Food for Thought

An important consideration should be to compare Peruvian economic outreach in Asia, especially its trade with China. That too when India's new foreign Trade Policy (2009-14) identifies Latin America as a market to be focussed on. Also, in terms of exports to Mexico, there are several commodities like ores, slag; coffee, tea; edible vegetables; and even articles of apparels; in which India has comparative advantage, but still these commodities do not constitute major ingredients of India's exports to Mexico, which however Peru exports to Mexico. Should we not think of enhancing our export competitiveness in at least such commodities where we enjoy global comparative advantages?

2. Ghana, Turkey to sign trade agreement

By January 2012 Ghana and Turkey will conclude bilateral negotiations for a free trade agreement aimed at increasing trade volumes between the two countries. The Second Secretary and Charge d'Affaires of the Turkish Embassy, Ms Ipek Zeytinoglu, announced this at the opening of the 2nd Ghana-Turkish Export Products Exhibition in Accra.

Organised by Meridyen International Fair Organisation, the three-day fair which attracted more than 50 companies from Turkey representing various private sector businesses, ends on December 22, 2012. Among the products on exhibition are industrial machinery, plastic wares, detergents, woolen carpets, floor mats, confectionaries and automobiles.

The exhibition comes on the heels of the 2nd Ghana Joint Economic Commission Meeting in Accra in October, which, among other things, charged the Trade Ministries of both countries to raise the volume of trade between the two countries to \$1billion by 2015.

In that regard, Ms Zeytinoglu said although the dynamism and entrepreneurship of the private sector in Ghana and Turkey had a primary role in enhancing our trade relations, an equally important role will have to be assumed by "our governments by providing an adequate legal infrastructure between our two countries and thus supporting our business communities".

Ghana-Turkey diplomatic relations started in the 1950s and has since blossomed. Ghana is considered Turkey's third largest trade partner. Currently, while the country's main export to Turkey include cocoa and gold, Turkey on the other hand, exports to Ghana commodities including stones, cement, metals, mineral oils, electrical machinery and equipment.

The bilateral trade volume between the two countries amounted to \$175 million by the end of 2009 and increased to \$290 million in 2010, with that of 2011 estimated to hit \$400 million. Currently, the volume of trade weigh heavily in favour of Turkey, but Ms Zeytinoglu noted that to balance trade, “the business communities of our two countries will have to work hard and it is precisely the mutual organisation of trade fairs that will be instrumental.

“From our side, we also urge the Ghanaian exporters to participate in the Izmir International Trade Fair which is organised every year in September in Turkey,” she stated. As an incentive to boost trade, she said the two countries also envisaged to conclude an agreement on the avoidance of double taxation.

Kofi Larbi, a Director of the Ministry of Trade and Industry, who represented the sector minister, observed that exhibition “provides us not only to strengthen the long-standing diplomatic ties and economic relations of our two countries but also to deepen trade and economic co-operation between Ghana and Turkey”.

The search for export markets for products, he stated, had become very intense in recent times as countries all over the world were deploying considerable efforts to secure their fair share of the international market. He said the current focus of the trade and industry sector included the transformation of Ghanaian businesses and enterprises to become highly competitive create jobs and improve the livelihood of Ghanaians.

For that reason, the director said the ministry was implementing policies including the Private Sector Development Strategy IT and a new National Export Strategy. “In line with the government’s broader objective of achieving a better Ghana for all, the trade and industry sector is committed to increasing international trade through an aggressive export drive based on improved competitiveness of local industries and enhanced competitiveness of Ghana as a business destination.

He urged Ghanaian entrepreneurs to make good use of the opportunities that the fair would provide to create long-lasting relations between the two countries. The first Ghana-Turkish Export Products Exhibition was held in Accra in April 2001.

<http://www.bilaterals.org/spip.php?article20823>

CUTS Comments

India's exports to Ghana totalled approximately US\$511mn in 2010. Compared to this, Turkey's exports to Ghana was less than 20 percent that of India and was valued at about US\$97mn. A comparison of top 10 export items constituting more than 75 percent of exports from each of these countries to Ghana (Table 2.1) shows that there are six product segments in which India's and Turkey's exporters compete with each other. However, India is relatively better placed in all the competing product segments. Also it appears that India's export basket is more diversified than that of Turkey. The existing situation might slightly change as a result of this trade agreement becoming fully operational.

Table 2.1

India's exports to Ghana <i>Exports in 2009: US\$511.1mn</i>		Turkey's exports to Ghana <i>Exports in 2009: US\$96.5mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Pharmaceutical products	122.3	--	--
Iron and steel	59.3	Iron and steel	25.4
Electrical, electronic equipment	55.1	Electrical, electronic equipment	8.5
Machinery, nuclear reactors, boilers, etc	35.0	Machinery, nuclear reactors, boilers, etc	3.9
Vehicles other than railway, tramway	30.9	Vehicles other than railway, tramway	4.6
Plastics and articles thereof	23.8		
Articles of iron or steel	21.3	Articles of iron or steel	3.4
Other made textile articles, sets, worn clothing etc	20.1	--	--
Rubber and articles thereof	14.9	Rubber and articles thereof	3.1
Paper & paperboard, articles of pulp, paper and board	11.8	--	--
Top 10 products (% of total exports)	394.3 (77)	Salt, sulphur, earth, stone, plaster, lime and cement	11.9
		Milling products, malt, starches, inulin, wheat gluten	7.3
		Mineral fuels, oils, distillation products, etc	7.1
		Cereal, flour, starch, milk preparations and products	3.5
		Top 10 products (% of total exports)	78.7 (82)

India's exports to Turkey in 2010 totalled approximately US\$2321mn. Ghana's export to Turkey during the same period was much lower and was valued at approximately US\$30mn. This is less than 1.5 percent that of India. (See Table 2.2 for a list of top 10 export items in value terms).

A comparison of major export items from India and Ghana to Turkey shows that exports from India and Ghana are not competing at all in any of the major product segments. India appears to be in a much better position than Ghana in all the competing product segments. The scope and chance of any adverse impact on Indian exports as a result of operationalisation of this agreement is nil or negligible. Additionally, about 98 percent of Ghana's exports to Turkey is concentrated in two product segments, namely cocoa and cocoa preparations and pearls, precious stones, metals, coins, etc. None of these items are exported by India to Turkey. Thus, the agreement has little potential to cause trade diversion.

Table 2.2

India's exports to Turkey <i>Exports in 2010: US\$2321.4mn</i>		Ghana's exports to Turkey <i>Exports in 2010: US\$29.8mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Vehicles other than railway, tramway	233.8	--	--
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	--	--
Iron and steel	142.4	--	--
Manmade filaments	90.7	--	--
Machinery, nuclear reactors, boilers, etc	86.2	--	--
Tanning, dyeing extracts, tannins, derivs, pigments etc	77.3	--	--
Top 10 products (% of total exports)	1624.9 (70)	Cocoa and cocoa preparations	15.5
		Pearls, precious stones, metals, coins, etc	13.8
		Top 2 products (% of total exports)	29.3 (98)

Food for Thought

Even though this trade agreement shall not affect India, it is noteworthy that we need to explore a broad-based engagement with both Turkey and Ghana. With Turkey, which is also a member of ECOTA, there are strategic considerations as well owing to its deep rooted trading arrangements with hydrocarbon rich countries of Central Asia. Moreover, India's engagements and its increasing role in Africa also solicit focussing on region building efforts in the continent. Ghana, being a member of ECOWAS, is our important trade partner in the region. We need to focus not only on exports to, but also investments in, fertiliser and petroleum product (including oil and gas) sector in Ghana.

3. Peru-Panama FTA to come into force in 2012

Peruvian Minister of Foreign Trade and Tourism Jose Luis Silva said that the Free Trade Agreement (FTA) signed with Panama will come into effect in the first quarter of 2012 after being approved by the National Assembly of said Central American country on Tuesday.

“Now, what’s left to do is that both ministries of Trade come to an agreement so that the FTA can come into effect simultaneously,” Minister Silva told Andina news agency.

Trade with Panama may double in the next three years thanks to the signing of said agreement.

The Peru-Panama FTA will boost the exports of small enterprises as the standards and requirements are similar in production, which will facilitate trade between both countries. Panama imports to Peru amount to 40 million dollars, while exports total 1 million dollars.

<http://www.bilaterals.org/spip.php?article20767>

CUTS Comments

India's exports to Peru were valued at approximately US\$399mn in 2010. In the same year, Panama's export to Peru was less than 40 percent that of India, and was valued at US\$157mn. Considering the gap between exports of these two countries to Peru, it appears that the competition is not intense between the two countries in the Peruvian market.

Additionally, it is also observed that the two countries compete with each other in only two products' segments, namely electrical, electronic equipment and pharmaceutical products. These two products' segments could be adversely affected by the new agreement. In other cases, the new trade agreement appear to have very little impact on existing export trend and will not lead to any significant trade diversion. (See Table 3.1 for a list of top export items in value terms).

Table 3.1

India's exports to Peru <i>Exports in 2010: US\$398.9</i>		Panama's exports to Peru <i>Exports in 2010: US\$156.5mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Cotton	74.6	--	--
Vehicles other than railway, tramway	69.0	--	--
Iron and steel	49.9	--	--
Electrical, electronic equipment	25.6	Electrical, electronic equipment	26.9
Plastics and articles thereof	25.1	--	--
Manmade filaments	20.5	--	--
Manmade staple fibres	20.4	--	--
Pharmaceutical products	19.5	Pharmaceutical products	29.2
Rubber and articles thereof	15.6	--	--
Organic chemicals	13.1	--	--
Top 10 products (% of total exports)	333.4 (84)	Footwear, gaiters and the like, parts thereof	14.5
		Machinery, nuclear reactors, boilers, etc	13.3

Essential oils, perfumes, cosmetics, toiletries	11.2
Articles of apparel, accessories, not knit or crochet	9.4
Tanning, dyeing extracts, tannins, derivs, pigments etc	7.2
Articles of leather, animal gut, harness, travel goods	6.1
Articles of apparel, accessories, knit or crochet	5.5
Optical, photo, technical, medical, etc. apparatus	3.5
Top 10 products (% of total exports)	127.0 (81)

India's exports to Panama in 2010 totalled approximately US\$102mn. During the same period, Peru's exports to Panama were 2.5 times more than that of India and were valued at US\$254mn. (See Table 3.2 for a list of top 10 export items in value terms).

A comparison of top ten export items of India and Peru to Panama market shows that the two countries compete with each other in three product segments. These include articles of apparel, accessories, knit or crochet; plastics and articles thereof; and pharmaceutical products. In value terms, while India is relatively better placed in two segments, Peru is better place in one (plastics and articles thereof). As of now, the competition appears to be significantly limited as only three product categories from India and Peru compete with each other in the Panama market. However, the current agreement can tilt the balance in favour of Peru, especially in segments in which Peru has relative advantage. There is a little scope for trade diversion, as a result of operationalisation of this new trade agreement.

Table 3.2			
India's exports to Panama <i>Exports in 2010: US\$101.6mn</i>		Peru's exports to Panama <i>Exports in 2010: US\$254.0mn</i>	
Product	Value (US\$mn)	Product	Value (US\$mn)
Articles of apparel, accessories, knit or crochet	16.2	Articles of apparel, accessories, knit or crochet	3.7
Articles of apparel, accessories, not knit or crochet	14.0		--
Vehicles other than railway, tramway	10.6	--	--
Other made textile articles, sets, worn clothing etc	8.6	--	--
Articles of iron or steel	8.3	--	--

Plastics and articles thereof	5.1	Plastics and articles thereof	10.7
Manmade staple fibres	4.5	--	--
Tobacco and manufactured tobacco substitutes	4.0	--	--
Pharmaceutical products	3.9	Pharmaceutical products	2.3
Rubber and articles thereof	3.8	--	--
Top 10 products (% of total exports)	79.0 (77.8)	Mineral fuels, oils, distillation products, etc	195.8
		Meat, fish and seafood food preparations nes	4.7
		Printed books, newspapers, pictures etc	3.5
		Machinery, nuclear reactors, boilers, etc	2.8
		Electrical, electronic equipment	3.7
		Pearls, precious stones, metals, coins, etc	2.4
		Cereal, flour, starch, milk preparations and products	2.2
		Top 10 products (% of total exports)	230.7 (90.8)

Food for Thought

Proximity is a constraint, but considering that Panama is the first country in Central America where India established a mission, there exist potential to diversify our portfolio of trade with Panama. There exists huge opportunities for services sector in Panama, in which India can leverage its competitiveness.