

# CUTS Dossier on Preferential Trade Agreements

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### 1. New US-Morocco Agreements Seen as Boost to Trade Relations

The US and the Kingdom of Morocco have signed new agreements that the top US trade official says will stimulate significant additional commercial activity between the two countries and within the broader Middle East-North Africa region. The agreements were reached on December 05 in Washington at the third joint committee meeting under the US-Morocco Free Trade Agreement, which entered into force on January 01, 2006.

Deputy US Trade Representative Miriam Sapiro and Moroccan Minister of Industry, Trade and New Technologies Abdelkader Amara opened the meeting, which focused on the significant increases in bilateral trade and investment – an increase of more than 300 percent in goods trade since the FTA’s entry into force – the Office of the US Trade Representative said.

Morocco is currently the US’ 55<sup>th</sup> largest goods trading partner, with two-way goods trade totaling US\$3.8bn in 2011. US goods exports to Morocco totaled US\$2.8bn in 2011, and US goods imports from Morocco totaled US\$1bn. US foreign direct investment (FDI) in Morocco was US\$350mn in 2011, the USTR said. “Morocco is a key strategic bilateral trade and investment partner to the US and plays a pivotal role in the Obama administration’s trade and investment partnership initiative with the Middle East and North Africa,” said USTR Ron Kirk. “These agreements will be key in advancing our countries’ common agenda for jobs and economic growth.”

Prior to the joint committee meeting, Sapiro and Amara initialed a trade facilitation agreement, which expands on the commitments in the FTA to set a new standard for transparency and predictability in customs matters that will make it easier for companies, large and small, to bring products into both markets, USTR said. The text includes new commitments reflecting innovations and practices developed since the FTA was signed

in 2004, such as allowing the submission of information before goods arrive and the electronic payment of duties, taxes and fees to facilitate the prompt release of goods.

The US and Morocco also reached agreement on a set of joint principles for international investment. "Building on ongoing efforts to promote trade and investment, the principles are statement of the US' and Morocco's continuing commitment to adopt and maintain a policy environment that enables and encourages international investment, in view of the many economic benefits that such investment produces, USTR said.

The agreements, USTR added, include strong protection for foreign investment, including the right to compensation in the event of a direct or indirect expropriation, consistent with principles of customary international law. The agreement also states that both nations can implement the principles in a manner fully consistent with the pursuit of other legitimate public policy objectives.

In addition, the two sides endorsed a set of joint principles for information and communication technology services. Endorsement of these principles, USTR said, demonstrates both countries' "shared commitment to a sector that is having a transformative effect on the global economy." Adoption of the ICT principles will support the global development of ICT services, including Internet and other network-based applications that are critical to innovative e-commerce, USTR said. The principles address issues such as the free flow of information across borders, facilitating the cross-border supply of services and foreign investment in ICT sectors. "All three of these important initiatives are aimed at boosting bilateral and regional trade and investment," USTR said. "Like the FTA itself, the initiatives will facilitate greater business collaboration and support job growth in both countries." (<http://bilaterals.org/spip.php?article22430>)

### **CUTS Comments**

*In 2011, the value of total exports from India to Morocco was US\$374.41mn. In the same year, the value of total exports from US to Morocco was US\$2862.63mn. In the wake of the new equation, the overall position can further tilt in favour of the US, especially in case of exports of cotton and plastics products. An examination of the export basket of the two countries shows that India and the US do not have much competitive interest in the Moroccan market. More importantly, competition is significantly low in case of agro-based exports except cotton, and a medium level of export complementarity found between India and US in the Moroccan market.*

*A comparison of major export items from India and the US to Morocco demonstrates that the two countries compete with each other in at least three product segments. They include cotton; plastics and articles thereof; and machinery, nuclear reactors, boilers, etc. In one out of three competing products, the US has definitive edge over India (Table 1.1). India needs to increase its competitiveness in these product segments in order to capture increased export market in Morocco. India does not have preferential trade agreement with Morocco and, therefore, one can expect that the impact on competing Indian exports will be significant as a result of this agreement.*

*In non-competing segments like electrical, electronic equipment; manmade staple fibres; vehicles other than railway, tramway; manmade filaments; coffee, tea, mate and spices; inorganic chemicals, precious metal compound, isotopes and pharmaceutical products, India could continue to remain a dominant player compared to the US. However, in product segments namely mineral fuels, oils, distillation products, etc.; aircraft,*

spacecraft, and parts thereof; animal, vegetable fats and oils, cleavage products, etc.; residues, wastes of food industry, animal fodder; cereals; iron and steel and dairy products, eggs, honey, edible animal products, India does not export to Morocco even when India enjoys global comparative advantage in some of the product segments.

<b>Table 1.1</b>				
<b>India's Export to Morocco</b> (Exports in 2011: US\$374.41mn)			<b>USA's Export to Morocco</b> (Exports in 2011: US\$2.9bn)	
Export Value in 2011 (US\$m)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$m)	Annual growth (2007-2011, %, p.a.)
46.75	95	Electrical, electronic equipment	...	...
44.48	30	Manmade staple fibres	...	...
43.03	19	Vehicles other than railway, tramway	...	...
38.05	6	Manmade filaments	...	...
34.20	16	Cotton	68.48	169
23.46	9	Plastics and articles thereof	60.87	-3
21.30	2	Machinery, nuclear reactors, boilers, etc.	86.48	-6
14.20	43	Coffee, tea, mate and spices	...	...
12.57	123	Inorganic chemicals, precious metal compound, isotopes	...	...
12.29	14	Pharmaceutical products	...	...
		Mineral fuels, oils, distillation products, etc.	933.54	53
		Aircraft, spacecraft, and parts thereof	447.94	23
		Animal, vegetable fats and oils, cleavage products, etc.	340.01	47
		Residues, wastes of food industry, animal fodder	293.02	47
		Cereals	142.27	-18
		Iron and steel	94.15	247
		Dairy products, eggs, honey, edible animal products	57.09	19
<b>290.33 (78%)</b>		<b>Top 10 Products (% of total exports)</b>	<b>2523.86(88%)</b>	

Source: ITC data base

In 2011, India's exports to the US were valued at approximately US\$34bn, which are nearly 32 times more than that of Morocco's export to the US. As on 2011, the Morocco's export to US was valued at US\$1.1bn. Considering the gap between exports of India and Morocco to the US, it appears that competition is not intense between the two countries in the US market, especially in the agro-based and mineral exports. It is observed that two countries compete with each other in four product segments, namely pearls, precious stones, metals, coins, etc.; articles of apparel, accessories, not knit or crochet; mineral fuels, oils, distillation products, etc. and electrical, electronic equipment. Even in these four product segments India is better positioned than Morocco.

In non-competing segments like other made textile articles, sets, worn clothing etc; machinery, nuclear reactors, boilers, etc.; articles of iron or steel; organic chemicals

and lac, gums, resins, vegetable saps and extracts nes, India could continue to remain a dominant player as compared to Morocco (Table 1.2). However, in product segments namely salt, sulphur, earth, stone, plaster, lime and cement; animal, vegetable fats and oils, cleavage products, etc.; vegetable, fruit, nut, etc; food preparations; edible fruit, nuts, peel of citrus fruit, melons and meat, fish and seafood food preparations nes, India does not export to the US even when India enjoys global comparative advantage in some of the product segments.

Table 1.2				
India's Export to US (Exports in 2011: US\$323bn)		Morocco's Export to US (Exports in 2011: US\$1.1bn)		
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
7059.09	8	Pearls, precious stones, metals, coins, etc.	31.76	146
2349.17	29	Pharmaceutical products	...	...
1798.72	2	Articles of apparel, accessories, not knit or crochet	69.67	-3
1676.46	14	Other made textile articles, sets, worn clothing etc.	...	...
1554.33	67	Lac, gums, resins, vegetable saps and extracts nes	...	...
1550.46	1	Articles of iron or steel	...	...
1550.45	20	Organic chemicals	...	...
1505.24	9	Machinery, nuclear reactors, boilers, etc.	...	...
1473.87	28	Mineral fuels, oils, distillation products, etc.	54.69	-63
1467.47	12	Electrical, electronic equipment	132.96	2
		Salt, sulphur, earth, stone, plaster, lime and cement	343.60	11
		Fertilisers	118.40	34
		Animal, vegetable fats and oils, cleavage products, etc	67.17	71
		Vegetable, fruit, nut, etc. food preparations	46.29	-1
		Edible fruit, nuts, peel of citrus fruit, melons	35.33	11
		Meat, fish and seafood food preparations nes	30.26	4
<b>21985.244 (67%)</b>		<b>Top 10 Products (% of total exports)</b>	<b>930.121 (87%)</b>	

Source: ITC data base

### Food for Thought

India does not have PTA with Morocco and the US. In the beginning, one can expect that the impact on Indian exports will not be significant in the US market but some impact will be seen in the Moroccan market as a result of signing of this agreement. Should India start FTA negotiations with Morocco to protect its export interest? Will such an agreement be able to protect India's export interests in the Moroccan as well as US markets?

## 2. Peru, GCC Ink Pact on Trade, Economic & Investment Cooperation

Peru signed a framework agreement on trade, economic, technical and investment cooperation with the Gulf Cooperation Council (GCC), which comprises Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, and the UAE.

The agreement, the first of its kind with a South American country, was signed by Saudi Arabia's Foreign Minister Nizar bin Obaid Madani and his Peruvian counterpart Rafael Roncagliolo within the framework of the Third Summit of South American-Arab Countries.

The two ministers agreed that the pact will strengthen friendship ties and make the Andean country a "strategic partner" for the GCC. The accord will facilitate investment flows, boost bilateral trade and tourism, and promote scientific and technological development in energy and agriculture.

It also paves the way for a possible FTA between Peru and the six GCC member states. Underscoring the importance of its agreement with the GCC, the Peruvian Foreign Ministry said the GCC had only previously signed a similar agreement with the Southern Common Market (Mercosur).

Roncagliolo noted that this pact will "strengthen and boost" relations between Peru and the Gulf countries. "The signing of this agreement confirms that Peru is committed to a policy of promoting [itself] to the world, looking for strategic partners in the international community," he told reporters during the signing ceremony, held on the margins of the Third Summit of Heads of State ASPA. He added that the agreement is in line with the government's policy of promoting dialogue that has led to the opening of new embassies in Qatar, Kuwait and Saudi Arabia, and a consular mission in Dubai. (<http://bilaterals.org/spip.php?article22115>)

### **CUTS Comments**

*In 2011, value of total exports from India to GCC, consisting of Bahrain, Oman, Kuwait, Qatar, Saudi Arabia, and the UAE, was US\$46bn. In the same year, value of total exports from Peru to GCC was US\$13.23mn. In the wake of the signing of Peru-GCC agreement, the overall position may not tilt in favour of Peru, given India's high export. Presently, an examination of the export basket of two countries shows that India and Peru do not have much competitive interest in the GCC market. More importantly, the competition is significantly low in case of agro-based exports except cotton, and a medium level of export complementarity found between India and Peru in the GCC market.*

*A comparison of major export items from India to GCC demonstrates that they compete with each other in one product segment, namely machinery, nuclear reactors, boilers, etc (Table 2.1). India needs to increase its competitiveness in and outside of the product segments in order to capture its export market. India does not have PTA with GCC and, therefore, one can expect that the new agreement could slightly impact Indian exports, especially competing product segment.*

*In non-competing segments like pearls, precious stones, metals, coins, etc.; mineral fuels, oils, distillation products, etc.; cereals; electrical, electronic equipment; ships, boats and other floating structures; articles of apparel, accessories, knit or crochet;*

articles of iron or steel; iron and steel; articles of apparel, accessories, not knit or crochet, India could continue to remain a dominant player compared to GCC. However, in product segments namely glass and glassware; edible vegetables and certain roots and tubers; dairy products, eggs, honey, edible animal products; residues, wastes of food industry, animal fodder; explosives, pyrotechnics, matches, pyrophorics, etc.; vegetable, fruit, nut, etc. food preparations; fish, crustaceans, molluscs, aquatic invertebrates; edible fruit, nuts, peel of citrus fruit, melons and miscellaneous edible preparations, India does not export to GCC even when it enjoys global comparative advantage in some of the product segments.

<b>Table 2.1</b>				
<b>India's Export to GCC</b> (Exports in 2011: US\$46bn)			<b>Peru's Export to GCC</b> (Exports in 2011: US\$13.23mn)	
<i>Export Value in 2011 (US\$mn)</i>	<i>Annual growth (2007-2011, %, p.a.)</i>	<i>Sectors</i>	<i>Export Value in 2011 (US\$mn)</i>	<i>Annual growth (2007-2011, %, p.a.)</i>
20786.61	107.67	Pearls, precious stones, metals, coins, etc.	...	...
8018.32	16.32	Mineral fuels, oils, distillation products, etc.	...	...
2039.57	30.81	Cereals	...	...
1698.30	40.97	Electrical, electronic equipment	...	...
1410.80	16.30	Machinery, nuclear reactors, boilers, etc.	24.35	0.683
1226.87	65.47	Ships, boats and other floating structures	...	...
939.67	14.31	Articles of apparel, accessories, not knit or crochet	...	...
874.00	-2.24	Articles of iron or steel	...	...
799.15	10.43	Iron and steel	...	...
760.62	37.22	Articles of apparel, accessories, knit or crochet	...	...
		Glass and glassware	373.58	4.209
		Edible vegetables and certain roots and tubers	0.79	1.399
		Miscellaneous edible preparations	75.58	1.219
		Edible fruit, nuts, peel of citrus fruit, melons	NA	0.853
		Dairy products, eggs, honey, edible animal products	128.44	0.804
		Residues, wastes of food industry, animal fodder	-22.13	0.738
		Explosives, pyrotechnics, matches, pyrophorics etc.	-13.22	0.527
		Vegetable, fruit, nut, etc. food preparations	10.55	0.482
		Fish, crustaceans, molluscs, aquatic invertebrates	208.33	0.392
<b>38553.8 (83%)</b>		<b>Top 10 Products (% of total exports)</b>	<b>11.30 (85 %)</b>	

Source: ITC data base

In 2011, India's exports to Peru were valued at approximately US\$525.89mn, which were nearly three times more than that of GCC's export to Peru. As on 2011, GCC's export to Peru was valued at US\$177.22mn. Considering the gap between exports of these two countries to Peru, it appears that competition is not intense between the two countries in the Peruvian market, except in plastics and articles thereof. It is observed that the two countries compete with each other in two product segments, namely Plastics and articles thereof and rubber and articles thereof. Even in these two product segments,

India is better positioned than Peru in one product segment. However, it needs to further strengthen its position in these segments and other non-competing product segments to maintain its edge.

In non-competing segments like vehicles other than railway, tramway; cotton; iron and steel; manmade filaments; manmade staple fibres; electrical, electronic equipment; pharmaceutical products and organic chemicals, India could continue to remain a dominant player as compared to GCC (Table 2.2). However, in product segments namely aluminium and articles thereof; pulp of wood, fibrous cellulosic material, waste etc.; machinery, nuclear reactors, boilers, etc.; glass and glassware; ceramic products; carpets and other textile floor coverings and articles of iron or steel, India does not export to Peru even when it enjoys global comparative advantage in two of these product segments. As far as this agreement is concerned, overall impact on India's export will be negligible in both the markets.

<b>Table 2.2</b>				
<b>India's Exports to Peru</b> (Exports in 2011: US\$525.89mn)			<b>GCC's Exports to Peru</b> (Exports in 2011: US\$177.22mn)	
Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)	Sectors	Export Value in 2011 (US\$mn)	Annual growth (2007-2011, %, p.a.)
107.33	47	Vehicles other than railway, tramway	...	...
93.599	9	Cotton	...	...
61.465	32	Iron and steel	...	...
34.548	56	Manmade filaments	...	...
33.157	37	Manmade staple fibres	...	...
29.496	48	Plastics and articles thereof	162.7402	72.31
26.578	95	Electrical, electronic equipment	...	...
25.844	8	Rubber and articles thereof	0.17	NA
22.914	12	Pharmaceutical products	...	...
13.783	20	Organic chemicals	...	...
		Aluminium and articles thereof	83.84	445.7077
		Pulp of wood, fibrous cellulosic material, waste etc.	19.10	NA
		Machinery, nuclear reactors, boilers, etc.	0.41	-8.53462
		Glass and glassware	0.36	72.28261
		Articles of iron or steel	0.25	2041.667
		Carpets and other textile floor coverings	0.19	NA
		Ceramic products	0.10	-12.1693
		Vehicles other than railway, tramway	0.09	-21.36
<b>448.7 (85 %)</b>		<b>Top 10 Products (% of total exports)</b>	<b>176.818 (100 %)</b>	

Source: ITC data base

### **Food for Thought**

India does not have PTA with Peru, while negotiation is on for a framework agreement with GCC. In the beginning, one can expect that the impact on Indian exports will not be significant in the GCC markets but some impact will be seen in the Peruvian market as a result of signing of this agreement. Should India expedite a PTA negotiation with Peru to

*protect its export interest? Will such agreement be able to protect India's export interests in the Peruvian as well as GCC markets?*

### **3. Canada Joins Trans-Pacific Partnership Agreement Negotiation**

Deepening Canada's ties in fast-growing Asia-Pacific region is key part of Canada's Economic Action Plan to create jobs, growth and prosperity, says Minister Fast. Ed Fast, Minister of International Trade and Minister for the Asia-Pacific Gateway, announced that Canada has officially joined the latest round of Trans-Pacific Partnership (TPP) trade negotiations, now under way in Auckland, New Zealand.

“Our government is focused on creating jobs, growth and long-term prosperity for workers and families in every region of Canada,” said Minister Fast. “That is why we are opening new markets for our exporters throughout the fast-growing Asia-Pacific region. Canada will be a strong voice at the TPP negotiating table, and we look forward to working productively with all TPP members to advance Canadian interests and achieve our shared objectives.”

Canada formally joined the TPP on October 08, 2012. The group comprises 11 countries –Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam – and represents a market of nearly 658 million people with a combined gross domestic product (GDP) of US\$20.7tn.

“Latin America and Asia include some of the fastest-growing economies in the world,” said Minister Fast. “Joining our largest trading partners – the US and Mexico – in the TPP will strengthen trade and investment ties and supply chains between the Americas and Asia and create new opportunities for Canadian exporters seeking to expand into new markets or enhance their presence in existing markets.”

In less than six years, the Harper government has concluded trade agreements with nine countries: Colombia, Honduras, Jordan, Panama, Peru, and the European Free Trade Association member states of Iceland, Liechtenstein, Norway and Switzerland. Canada has also begun deepening trade and investment ties with some of the largest markets in the world, including the European Union, India and Japan. The 15<sup>th</sup> round of TPP negotiations in Auckland will continue until December 12, 2012.

*([http://www.international.gc.ca/media\\_commerce/comm/news-communicues/2012/12/03a.aspx?view=d](http://www.international.gc.ca/media_commerce/comm/news-communicues/2012/12/03a.aspx?view=d))*

#### **CUTS Comments**

*In 2011, India's export to TPP countries was valued at approximately US\$63.3bn, which was nearly 19 per cent that of Canada's export to TPP countries. As on 2011, Canada's export to TPP countries was valued at US\$34.1bn (Table 3.1). It appears that competition is not intense between them in TPP markets. The major export market of Canada is the US, having 97 per cent of export share among other TPP countries. The top three export of Canada are mineral fuels, oils, distillation products, etc.; vehicles other than railway, tramway and machinery, nuclear reactors, boilers, etc. whereas the top three export of India to the US market are pearls, precious stones, metals, coins, etc.; pharmaceutical products and articles of apparel, accessories, not knit or crochet. It is observed that India and Canada enjoy some export complementarity in the US market.*



Table 3.1				
India's Export to TPP Countries			Canada's Export to TPP Countries	
Export Value in 2011 (US\$m)	Annual growth (2007-2011, %, p.a.)	Country	Export Value in 2011 (US\$m)	Annual growth (2007-2011, %, p.a.)
<b>63269</b>	<b>22.95</b>	<b>Total: TPP Countries</b>	<b>340915</b>	<b>0.14</b>
2096	23.39	Australia	1629	4.41
871	2444.38	Brunei Darussalam	3	7.72
1877	14.62	Canada's export to TPP	0	0.00
511	30.86	Chile	702	4.44
3799	26.33	Malaysia	549	10.05
1338	34.82	Mexico	4625	4.89
239	21.26	New Zealand	374	0.73
526	48.55	Peru	309	17.16
15627	36.14	Singapore	852	-1.17
32919	15.88	US	331602	0.01
3467	44.81	Viet Nam	270	6.41

Source: ITC data base

*In 2011, India's import from TPP countries was valued at approximately US\$63bn, which was nearly 24 per cent that of Canada's import from TPP countries. As on 2011, Canada's import from TPP was valued at US\$262bn (Table 3.2). It appears that competition is not intense for other TPP countries in both these markets. In 2011, export share of the US in total Canadian import from TPP countries was around 85 per cent. The top three imports of Canada from the US are vehicles other than railway, tramway; machinery, nuclear reactors, boilers, etc. and mineral fuels, oils, distillation products, etc. whereas the top three import of India from the US are pearls, precious stones, metals, coins, etc.; machinery, nuclear reactors, boilers, etc. and commodities not elsewhere specified.*

Table 3.2				
India's Import from TPP Countries			Canada's Import from TPP Countries	
Import Value in 2011 (US\$m)	Annual growth in value between 2007-2011, %, p.a.	Country	Import Value in 2011 (US\$m)	Annual growth in value between 2007-2011, %, p.a.
<b>62951</b>	<b>14.04</b>	<b>Total: TPP Countries</b>	<b>261801</b>	<b>3.09</b>
13417	18.67	Australia	1785	1.83
705	50.28	Brunei Darussalam	8	80.02
2297	3.64	Canada's import from TPP	NA	NA
1829	-0.75	Chile	1931	5.62
9106	14.76	Malaysia	2162	-5.18
2169	25.53	Mexico	24814	13.65
716	32.25	New Zealand	556	4.18
429	58.11	Peru	4455	30.87
8155	4.54	Singapore	1572	3.17
22574	14.72	US	223172	2.03
1554	228.75	Viet Nam	1346	22.48

Source: ITC data base

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

*The TPP is believed to be a high-standard agreement specifically aimed at reaping benefits from emerging trade issues in the 21<sup>st</sup> century. India has individual trade agreements with some member countries of TPP and is in the process of negotiating with some others. Given this, the question arises, should India become more aggressive to reap benefit from TPP countries, considering its vast market (gross domestic product of US\$ 20.7tn) and large population base (41 per cent of world population)?*