

Dossier on Preferential Trade Agreements

October 2010 – Revised Version
(Vol. IV, No. 9)

*(For all previous issues of PTA Dossiers, please visit:
<http://www.cuts-citee.org/PTADossier.htm>)*

Table of Contents

- [1. Jordan-Canada FTA Sailing Smoothly in Final Process of Endorsement](#)
 - [2. Costa Rica-China FTA Approved for Final Review](#)
 - [3. Peru-Thailand FTA Soon](#)
-

1. Jordan-Canada FTA Sailing Smoothly in Final Process of Endorsement

The free trade agreement (FTA) between Jordan and Canada is expected to go into effect in the first half of 2011, according to a top Canadian official. "The agreement now is in the parliamentary process. We have passed the second reading in the House of Commons, which is the most difficult step", Canadian Minister of International Trade Peter Van Loan told The Jordan Times during a several-hours visit to Jordan.

He said no changes have been made to the FTA with Jordan so far, noting that the process of approving the agreement has progressed smoothly with "very" little resistance compared to FTA agreements signed with other countries. The minister, who is on a regional tour that will include Saudi Arabia, Kuwait and Qatar, accredited the "strong" relationship between His Majesty King Abdullah and Canadian Prime Minister Stephen Harper for the momentum in signing the FTA.

"Jordan is also seen as a practical country with business orientation that is open to trading and has a sound rule of law", Van Loan said, noting that the Kingdom will benefit from the FTA with Canada in terms of wider scope of trade and lower prices for consumers.

"Agricultural products are major area of cooperation between the two countries," the minister indicated. He underlined the significance of the FTA with the Kingdom in terms of encouraging further investments in Jordan and enhancing the bilateral trade. "The FTA will create new export opportunities for Jordanian products through other countries that are already signatory to FTAs with Jordan and Canada", he indicated.

According to the Canadian Embassy, the bilateral trade stood at US\$80mn in 2009, compared to US\$91mn in 2008. "Trade is moving in the right direction", the official underlined, noting that trade has dropped everywhere in 2009. He did not rule out

Canadian companies' interest in the strategic location of Jordan to penetrate the Iraqi markets, stressing that Jordan is seen as a strong platform for business.

"If Canadian investors had successful investment experience in Jordan, if they were treated fairly and made good money then more and more Canadian investments will flow here", the minister said. Van Loan described Canada's economy as "very" strong whether in fiscal terms or economic growth and mentioned the signing of FTAs with nine countries in the last four years.

"We also have low taxes and now there are no taxes on equipment going into manufacturing regardless of which countries they come from," he said, indicating that Canada also has the best skillful workforce in the world. "There is a comfortable level of English language proficiency in Jordan", Van Loan remarked. "We consider such aptitude as an advantage for Canada over other competitors".

The Royal Jordanian operates regular direct flights between Amman and Montreal.

<http://www.bilaterals.org/spip.php?article18309>

CUTS Comments

India's exports to Canada were approximately US\$1,172mn in 2009 with major exports covering values over US\$20mn. Jordan's exports to Canada during the same period were significantly low compared to that of India at about US\$10.5mn. India and Jordan compete with each other in the export of six products to Canada. These competing segments could adversely impact India's future export prospects, even though presently the impact would quite low in value terms considering low level of exports from Jordan to Canada.

In other product segments, there does not appear to be much direct clash between exports by India and Canada. Scope for trade diversion could increase in the coming period, if this agreement is fully implemented. India should thus focus on these six identified segments, which could be adversely impacted by this new trade agreement between Jordan and Canada. This impact, however, could be substantially reduced if India enters into some trade agreement with Canada. There are indications that both sides have agreed recently to hold talks on FTA. This needs to be expedited.

| India's exports to Canada | Jordan's exports to Canada |
|---|---|
| Organic chemicals | – |
| Articles of apparel, accessories, knit or crochet | Articles of apparel, accessories, knit or crochet |
| Articles of apparel, accessories, not knit or crochet | Articles of apparel, accessories, not knit or crochet |
| Pearls, precious stones, metals, coins, etc. | Pearls, precious stones, metals, coins, etc. |
| Articles of iron or steel | – |
| Other made textile articles, sets, worn clothing etc | – |
| Machinery, nuclear reactors, boilers, etc. | – |
| Fish, crustaceans, molluscs, aquatic invertebrates | – |
| Pharmaceutical products | Pharmaceutical products |

| India's exports to Canada | Jordan's exports to Canada |
|--|---|
| Electrical, electronic equipments | Electrical, electronic equipment |
| Plastics and articles | – |
| Stone, plaster, cement, asbestos, mica, etc. articles | – |
| Carpets and other textile floor coverings | Carpets and other textile floor coverings |
| Articles of leather, animal gut, harness, travel goods | – |
| | Edible vegetables and certain roots and tubers |
| | Optical, photo, technical, medical, etc. |
| | Inorganic chemicals, precious metal compound, isotopes; |
| | Essential oils, perfumes, cosmetics, toiletries |

India's exports to Jordan in 2009 totalled approximately US\$286mn with major exports in value terms (ranging between US\$58.5mn-US\$5.6mn). Canada's exports to Jordan during the same period were very small and totalled a little over US\$57.8mn with the major exports (in the range of US\$9.2mn-US\$1.3mn). The products exported by both India and Canada to Jordan compete with each other in at least three areas. In terms of value, the prospects in electrical, electronic equipment could be hit hardest compared to other two products' segments as a result of implementation of this agreement. It could lead to significant trade diversion.

The adverse impact on Indian exports could be reduced by strengthening the existing India-Jordan agreement signed in mid-1970s under which a Trade and Economic Joint Committee promotes and monitors the progress.

| India's exports to Jordan | Canada's exports to Jordan |
|--|---|
| Organic chemicals | – |
| Articles of iron or steel | – |
| Machinery, nuclear reactors, boilers, etc; | Machinery, nuclear reactors, boilers, etc. |
| Pharmaceutical products | |
| Electrical, electronic equipment | Electrical, electronic equipment |
| Meat and edible meat offal | – |
| Fertilisers | – |
| Edible fruit, nuts, peel of citrus fruit, melons | – |
| Cereals | – |
| Vehicles other than railway, tramway | Vehicles other than railway, tramway |
| Manmade staple fibres | – |
| | Wood and articles of wood, wood charcoal |
| | Edible vegetables and certain roots and tubers |
| | Ships, boats and other floating structures |
| | Plastics and articles |
| | Optical, photo, technical, medical, etc. |
| | Paper & paperboard, articles of pulp, paper and board |
| | Miscellaneous edible preparations |

Food for Thought

In the list of top export items, there are at least two products namely pharmaceutical and electrical, electronic equipments which Jordan imports from India and also exports similar goods to Canada. Indian companies are relatively better placed. For example, the pharmaceutical sector has the capacity to produce and supply at globally competitive rates. Should such companies invest in local companies to gain from this trade agreement? Should not the Government of India facilitate investments by Indian pharmaceutical companies in Jordan?

2. Costa Rica-China FTA Approved for Final Review

Costa Rica's Foreign Trade Ministry (COMEX) and the legislature's Special Permanent Committee agreed to recommend approval of FTA with China. The agreement will be debated on the floor of the Legislative Assembly.

“The analysis and study done on the agreement were thorough”, said (the Costa Rican) Foreign Trade Minister Anabel González. Over 100 questions were addressed and agreed upon between 15 organisations of the private sector and representatives from the Agriculture, Health, Economy, Industry, and Foreign Trade Ministries. For Costa Rica, it is of utmost importance to establish the trade and investment opportunities with China provided by this FTA.

The agreement, which was highly contested during negotiations, eventually gained approval from all the business chambers in the country, with the exception of Chamber of Industries. The Costa Rican-Chinese relationship has surged since former Costa Rican President Oscar Arias established diplomatic ties with the Asian giant in June 2007. Longtime friend to Costa Rica, Taiwan, severed ties with the country once the new relations were announced.

Chinese influence in Costa Rica has grown most visibly with the construction of the giant US\$80mn National Stadium in La Sabana west of San José. The stadium, which was given to Costa Rica (by China) as a gift, is being built by Chinese labour. Since 2000, Costa Rica's trade with China has increased from US\$91.1mn to nearly US\$1.5bn in 2009.

<http://www.bilaterals.org/spip.php?article18262>

CUTS Comments

India's exports to China totalled over US\$10,370mn in 2009. India's exports to China consisted of various export items and had a value range of US\$4700 to below US\$100mn (for major export item see the table below). Costa Rica's exports to China during the same period constituted a little over five percent of the exports from India to China and totalled only US\$552mn. A list of Costa Rica's top exports items to China (in a value range of US\$419-US\$0.5mn) is given in the table below.

A comparison of major export items from India and Costa Rica demonstrate that the two countries compete with each other in at least seven product segments. There is thus a significant scope for trade diversion if the trade agreement between China and Costa

Rica is implemented and this could adversely impact India's exports to the Chinese market.

Over the last few years, it has been observed that every increase in trade between two countries leads to widening of trade balance in China's favour. The implementation of the trade agreement between China and Costa Rica implies that the current trade imbalance between India and China could further widen. This could be a setback for Indian exports.

| India's exports to China | Costa Rica's exports to China |
|--|--|
| Ores, slag and ash | – |
| Pearls, precious stones, metals, coins, etc. | – |
| Cotton | – |
| Organic chemicals | – |
| Iron and steel | Iron and steel |
| Copper and salt, sulphur, earth, stone, plaster, lime and cement | Copper and articles |
| Machinery, nuclear reactors, boilers, etc. | Machinery, nuclear reactors, boilers, etc. |
| Electrical, electronic equipment | Electrical, electronic equipment |
| Plastics and articles | Plastics and articles |
| Animal, vegetable fats and oils, cleavage products, etc. | – |
| Aluminum and articles | Aluminum and articles |
| Optical, photo, technical, medical, etc. | Optical, photo, technical, medical, etc. |
| | Vegetable, fruit, nut, etc. food preparations |
| | Raw hides and skins (other than furskins) and leather |
| | Live trees, plants, bulbs, roots, cut flowers etc. |
| | Articles of leather, animal gut, harness, travel goods |

India's exports to Costa Rica in 2009 in value terms totalled approximately US\$29mn. The export value of these products varied in the range of US\$6mn-US\$0.5mn. China's exports to Costa Rica during the same period were much higher than India and totalled over US\$537mn. In terms of value, these ranged between US\$125mn-US\$10mn.

The products exported by both India and China to Costa Rica compete with each other in at least five products' segments. In terms of value, these five products could pose a serious challenge to prospects of exports from India. It could lead to significant trade diversion, and therefore India must take initiatives to reduce the impacts of this agreement on Indian exports.

| India's exports to Costa Rica | China's exports Costa Rica |
|--------------------------------------|-----------------------------------|
| Pharmaceutical products | – |
| Miscellaneous chemical products | – |
| Organic chemicals | Organic chemicals |
| Electrical, electronic equipment | Electrical, electronic equipment |

| | |
|---|--|
| Paper & paperboard, articles of pulp, paper and board | – |
| Rubber and articles | Rubber and articles |
| Iron and steel | Iron and steel |
| Special woven or tufted fabric, lace, tapestry etc. | – |
| Machinery, nuclear reactors, boilers, etc. | Machinery, nuclear reactors, boilers, etc. |
| Products vehicles other than railway, tramway | – |
| Plastics and articles | Plastics and articles |
| | Railway, tramway locomotives, rolling stock, equipment |
| | Vehicles other than railway, tramway |
| | cotton |
| | Furniture, lighting, signs, prefabricated buildings |
| | Footwear, gaiters and the like, parts |
| | Edible vegetables and certain roots and tubers |
| | Optical, photo, technical, medical, etc. |

Food for Thought

Costa Rica is one of the most stable Latin American countries with a very high literacy rate of about 94 percent. Its government over the last few years has sought to attract foreign investment by offering incentives especially in its free-trade zones. From the list of exported items as shown above, there appears to be at least four export items which Costa Rica imports from India and also exports to China.

Since the chances for India entering into an FTA with China in the near future is not bright, should India make investments in the four sectors to gain from the China-Costa Rica trade agreement? Could such initiatives help Indian government and business enterprises to have a more effective cooperation with other Latin American countries?

3. Peru-Thailand FTA Soon

Peru will finally sign a FTA with Thailand during the Asia-Pacific Economic Cooperation (APEC) Summit in Japan.

Thai Deputy Commerce, Minister Alongkorn Ponlaboot, assured that Peru would serve as a gateway for Thailand to penetrate Latin America, while Thailand will be a gateway for Peru's exports to Southeast Asia. The official also said local businesses should prepare for new opportunities under the FTA, as two-way trade is expected to increase significantly.

Both countries have already reached agreement on all details, including rules of origin (RoO), an exchange system for aquaculture products and industrial goods to minimise the risk of arguments on RoO. Thailand and Peru have succeeded in their FTA talks, which started in 2003, in reducing import duties for 3,985 items accounting for 54.2 percent of the value of merchandise trade between them.

In 2009, bilateral trade was worth US\$132mn, with exports from Thailand to Peru valued at US\$96.2mn. Trade between both nations jumped significantly in 2010, with Thai exports increased by 315 percent to US\$233.5mn in the first nine months, while imports from Peru surged 136.4 percent to US\$75.6mn.

For Thailand, products with export potential to Peru are pickup trucks and auto parts, home appliances, especially washing machines, plastic and plastic products, and rubber. Peru will focus on fresh shrimp, fish oil and pesticides.

With the FTA, Thai businessmen will be eligible for incentives to expand their investments in Peru, which offers abundant natural resources such as fisheries, forests, oil and natural gas. Likewise, Peru wants Thai investors to increase their presence in the country, especially in the energy, construction, furniture and fishery industries.

<http://www.bilaterals.org/spip.php?article18357>

CUTS Comments

India's exports to Thailand totalled approximately US\$1,710mn in 2009 with major exports in the value range of US\$289mn-US\$10mn. Peru's exports to Thailand during the same period totalled a little over US\$50mn, with major products (carrying a value range of US\$36mn-US\$0.13mn). A comparison of exports items from India and Peru to Thailand shows that the two countries compete with each other in at least four products segments. In terms of value, export of residues, wastes of food industry, animal fodder ranks third in India's exports to Thailand. This could be adversely impacted by the new trade agreement between Thailand and Peru.

However, India's FTA with Association of Southeast Asian Nations (ASEAN), of which Thailand is a member, and proposed FTA between the two countries, which is in the final stages, could guard India's interests and reduce the adverse impacts.

| India's exports to Thailand | Peru's exports to Thailand |
|--|--|
| Electrical, electronic equipment | |
| Residues, wastes of food industry, animal fodder | Residues, wastes of food industry, animal fodder |
| Pearls, precious stones, metals, coins, etc. | – |
| Organic chemicals | – |
| Iron and steel | – |
| Machinery, nuclear reactors, boilers, etc. | – |
| Vehicles other than railway, tramway | – |
| Copper and articles | Copper and articles |
| Mineral fuels, oils, distillation products, etc. | – |
| Fish, crustaceans, molluscs, aquatic invertebrates nes | – |
| Miscellaneous chemical products | – |
| Pharmaceutical products | – |
| Cotton | – |
| Tanning, dyeing extracts, tannins, derivs, pigments etc. | – |

| India's exports to Thailand | Peru's exports to Thailand |
|--|--|
| Plastics and articles | – |
| Articles of iron or steel | – |
| Optical, photo, technical, medical, etc. apparatus; | – |
| Coffee, tea, mate and spices; | – |
| Animal, vegetable fats and oils, cleavage products, etc. | Animal, vegetable fats and oils, cleavage products, etc. |
| Other made textile articles, sets, worn clothing etc. | – |
| Salt, sulphur, earth, stone, plaster, lime and cement | Salt, sulphur, earth, stone, plaster, lime and cement |
| Inorganic chemicals, precious metal compound, isotopes | – |
| | Ores, slag and ashfish, crustaceans, molluscs, aquatic invertebrates nes |
| | Edible fruit, nuts, peel of citrus fruit, melons; |
| | Zinc and articles thereof |
| | Aluminum and articles thereof |
| | Wool, animal hair, horsehair yarn and fabric thereof |

India's exports to Peru in 2009 totalled approximately US\$217mn with the major exports in value terms (in the range of US\$52mn-US\$1mn). Thailand's exports to Peru during the same period totalled approximately US\$96mn with the major exports in value terms (in the range of US\$41mn-US\$0.5mn). A comparison of export items from India and Thailand shows that even though India's is more than double to that of Thailand, there is a considerable competition in many segments. There are at least 11 products segments in which India's and Thailand's export items compete with each other.

The new agreement would make the Peruvian market more competitive for Indian exports as it will open window of opportunities for Thailand to export more products, in which it has a comparative advantage. Thus, the agreement could lead to significant trade diversion.

| India's exports to Peru | Thailand's exports to Peru |
|--|---|
| Cotton | – |
| Iron and steel | – |
| Vehicles other than railway, tramway | Vehicles other than railway, tramway |
| Pharmaceutical products | Pharmaceutical products |
| Rubber and articles | Rubber and articles thereof |
| Plastics and articles | Plastics and articles thereof |
| Manmade staple fibres | Manmade staple fibres |
| Electrical, electronic equipment | Electrical, electronic equipment |
| Organic chemicals | – |
| Machinery, nuclear reactors, boilers, etc. | Machinery, nuclear reactors, boilers, etc |
| Manmade filaments | Manmade filaments |
| Miscellaneous chemical products | – |

| India's exports to Peru | Thailand's exports to Peru |
|--|---|
| Tanning, dyeing extracts, tannins, derivs, pigments etc; | – |
| articles of iron or steel | Articles of iron or steel |
| Other made textile articles, sets, worn clothing etc; | – |
| Articles of apparel, accessories, knit or crochet | Articles of apparel, accessories, knit or crochet |
| Articles of apparel, accessories, not knit or crochet | – |
| Optical, photo, technical, medical, etc apparatus; | Optical, photo, technical, medical, etc apparatus |
| Articles of leather, animal gut, harness, travel goods | – |
| Explosives, pyrotechnics, matches, pyrophorics, etc. | – |
| | Toys, games, sports requisites |
| | Glass and glassware |

Food for Thought

While India and Thailand signed an early harvest programme in 2004 under which the two countries agreed to eliminate duties on 82 items, they are now negotiating a full fledged FTA including goods, services and investment. A separate FTA between India and Thailand would give both the option of offering more than what has been agreed under the India-ASEAN FTA because ASEAN is not a Customs Union¹. In the given context, should India not expedite negotiation of an agreement with Thailand to promote cooperation between two countries? This will be of particular interest as Thailand is an important member of ASEAN group which has shown intention to have a more comprehensive economic cooperation agreement with India.

¹ Please note while each member state of an FTA may choose to maintain different external tariffs to non-participating countries, member states of a Customs Union agree to one common policy in applying external tariffs to outside trade partners. In other words unlike a Customs Union, members of an FTA do not have a common external tariff (same policies with respect to non-members), meaning different quotas and customs.