

Dossier on Preferential Trade Agreements

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1. Russia, Turkey to sign free trade agreement

An agreement of free trade will be sign soon between Russia and Turkey which include preferential and free trade agreements, a schedule for eliminating trade barriers, an agreement on bilateral trade, an accord for cooperation in banking and investment as well as for the use of domestic currencies in trade between the two countries.

Nowadays, Russia is Turkey's second largest trading partner, while Turkey is Russia's eighth largest foreign trade partner. Despite quite good trade relations in the past, the two countries want to increase their two-way trade volume from \$33bn to \$100bn by 2020. Indeed, the Turkey's role for Russia may increase because of the ban on some products that they cannot import from Western countries. For instance, Russia already expresses an immediate interest in the purchase of fish and meat products from Turkey.

(<http://customstoday.com.pk/russia-turkey-to-sign-free-trade-agreement/>)

CUTS Comments

The FTA between Russia and Turkey is likely to have some impacts on the export basket of India. However, our research based on ITC database and TradeSift software shows that the presence of India and Russia in Turkey's market and that of India and Turkey in Russia's market are competing on relatively less number of products. Though, the competition on account of the Russia-Turkey FTA may not be so detrimental to India in the short-run (see Table 1.3), the situation may change in the long-run.

Trade statistics reveal that in 2014 the total value of India's export to Russia was approximately US\$ 2.2 billion. In the same year, total value of Turkey's export to Russia was approximately US\$ 5.9 billion: more than two times that of India's export to Russia. Thus, Turkey is enjoying a significant advantage in Russia's market but that is mostly in non-competing product segments.

As shown in Table 1.1, India and Turkey are competing in three product segments (among their top 10 exports to Russia) such as machinery, nuclear reactors, boilers, etc.; vehicles other than railway, tramway; and electrical, electronic equipment. Currently, Turkey is better positioned than India in these products and as a result of this FTA it may further strengthen its position in this market.

However, in the competing product segments, annual growth rate of some export items of Turkey during 2010-14 was less than that of India. On the other hand, there are products like pharmaceutical products; aircraft, spacecraft, and parts thereof; coffee, tea, mate and spices; iron and steel; fish, crustaceans, molluscs, aquatic invertebrates, nes; and organic chemicals, where, as compared to Turkey, India is likely to remain a leading player in the Russian market.

Table 1.1				
India's Export to Russia (Export in 2014: US\$ 2219.21mn)			Turkey's Export to Russia (Export in 2014: US\$ 5945.71mn)	
Export Value in 2014 (US\$m)	Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$m)	Annual Growth (2010-2014, %)
447.92	18	Pharmaceutical products	...	...
268.03	99	Machinery, nuclear reactors, boilers, etc.	577.91	26
128.11	86	Aircraft, spacecraft, and parts thereof	...	...
112.01	0	Coffee, tea, mate and spices	...	...
106.51	51	Iron and steel	...	...
83.41	6	Vehicles other than railway, tramway	646.81	6
75.59	64	Fish, crustaceans, molluscs, aquatic invertebrates, nes	...	...
66.91	28	Electrical, electronic equipment	329.67	16
56.11	20	Organic chemicals	...	...
52.25	4	Miscellaneous edible preparations	...	...
		Edible fruit, nuts, peel of citrus fruit, melons	622.92	3
		Edible vegetables and certain roots and tubers	385.00	6
		Plastics and articles thereof	307.42	8
		Knitted or crocheted fabric	230.56	-8
		Manmade filaments	177.71	5
		Articles of apparel, accessories, knit or crochet	147.68	13
		Articles of iron or steel	136.93	14
1396.86 (63%)		Top 10 Products (percentage of total export)	3562.60 (60%)	

Source: International Trade Centre Database

In 2014, India's export to Turkey was valued at approximately US\$ 5.6 billion and Russia's export to Turkey was approximately US\$ 24.8 billion. Following this FTA between Russia and Turkey, it is expected that India's export to Turkey may get affected in some product

segments. Though Turkey's export similarity and complementarity are low (see Table 1.3), trade diversion in favour of Russia cannot be ruled out.

India is the 23rd and 10th largest import sources for Russia and Turkey, respectively. Products like mineral fuels, oils, distillation products, etc.; vehicles other than railway, tramway; machinery, nuclear reactors, boilers, etc.; manmade filaments; plastics and articles thereof; organic chemicals; aircraft, spacecraft, and parts thereof; and cereals are major export items from India to Turkey.

If we compare the data shown in Table 1.2, India and Russia compete with each other in some of those products, especially in mineral fuels, oils, organic chemicals; and cereals.

Additionally, if we look at export growth trend of these products during 2010 to 2014, it indicates that in most of these items India is relatively better positioned. This situation may not change immediately after this FTA but may affect India's trade in the long-run. In order to strengthen its position in these markets, India requires necessary measures to maintain and increase its trade competitiveness in these products.

Table 1.2				
India's Export to Turkey (Export in 2014: US\$ 5617.65mn)			Russia's Export to Turkey (Export in 2014: US\$ 24794.5mn)	
Export Value in 2014 (US\$mn)	Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$mn)	Annual Growth (2010-2014, %)
1549.4	84	Mineral fuels, oils, distillation products, etc.	5708.7	-8
580.4	27	Vehicles other than railway, tramway	...	
362.7	47	Machinery, nuclear reactors, boilers, etc.	...	
337.3	43	Manmade filaments	...	
286.8	19	Plastics and articles thereof	...	
236.2	5	Organic chemicals	650.9	22
212.4	3958	Aircraft, spacecraft, and parts thereof	...	
209.9	473	Cereals	1324.7	47
207.5	7	Manmade staple fibres	...	
205.3	30	Tanning, dyeing extracts, tannins, derivs, pigmentsetc	...	
		Commodities not elsewhere specified	10199.7	
		Iron and steel	3183.7	22
		Aluminum and articles thereof	955.6	2
		Animal, vegetable fats and oils, cleavage products, etc.	487.7	102
		Copper and articles thereof	381.3	-19
		Ores, slag and ash	238.3	60
		Residues, wastes of food industry, animal fodder	227.7	36
4187.91 (75%)		Top 10 Products (percentage of total export)	23358.2 (94%)	

Source: International Trade Centre Database

Given this composition of trade between these three countries, a quick simulation using Degrees of Similarity in Export Structures (Finger-Kreinin Index) and Relative Export Competitive Pressure Index can give an indication of competitive strengths and weaknesses with direct competitors in respective markets.

The Finger-Kreinin Index (FKI) measures how similar two sets of countries are in respect to their trade. It is used to compare the similarity between either the structure of a country's import or export with any two partner countries so as to see how similar a country's export pattern is to its import pattern, whether geographically or by product or to compare the structure of production in two different countries. It explains how similar the import of a given product is from two different suppliers. It is useful to measure overall similarity of export of two countries and, therefore, their degree of competitiveness/complementarity either with respect to a particular market or with respect to trade with the rest of the world. If $FK=1$ then export structures would be exactly similar and if $FK=0$ there would be no similarity.

The Relative Export Competitive Pressure Index (RECPI) calculates the average degree of competition that country X faces in country Y's market from country Z. It takes into account both the structure and level of competing countries' trade. Country X will be interested in the value of country Z's export to country Y, and also to the extent to which country Z's export is in direct competition with country X's export. A low RECPI explains less competition between the competitors.

The FKI in Table 1.3A varies between 0.09 and 0.15 and shows an increasing trend over the years indicating some similarity of export of India and Turkey to Russia. This means that at the aggregate level and to some extent India and Turkey were competing in Russia's market. On the other hand, the level of competition between India and Russia in Turkey's market was moderate but increasing (Table 1.3B).

Similar to the results of the Finger-Kreinin Index, Table 1.3C shows that during 2010 to 2014 the RECPI of India with Russia were low but more or less stable indicating that a low degree of competition between India and Russia in Turkey's market. The same was not true for India and Turkey in Russia's market (Table 1.3D).

Table 1.3: FKI and RECPI among India-Russia-Turkey (2010-14)											
A. India's FKI with Russia						B. India's FKI with Turkey					
Competitor	2010	2011	2012	2013	2014	Competitor	2010	2011	2012	2013	2014
Turkey	0.09	0.10	0.12	0.15	0.15	Russia	NA	0.116	NA	NA	NA
C. India's RECPI with Russia						D. India's RECPI with Turkey					
Competitor	2010	2011	2012	2013	2014	Competitor	2010	2011	2012	2013	2014
Russia	0.07	0.03	0.05	0.05	0.08	Turkey	10.07	6.17	5.88	4.19	NA
NA: Not Available											
<i>Source: CUTS calculation using data from UN Comtrade via WITS 6-Digit and TradeSift software</i>											

Food for Thought

As a result of this FTA, a wide range of Russian and Turkish products will receive preferential treatment in their respective markets. India and Turkey do not have any bilateral trade agreement. On the other hand, India is expected to negotiate a Comprehensive Economic Cooperation Agreement with the Eurasian Economic Union of which Russia is a member. In the wake of expected changes in trade in goods, services as well as investment relationship among India, Russia and Turkey, India should put more emphasis on its bilateral trade relations with Russia and Turkey to further strengthen its position in these markets.

2. Korea, New Zealand ink bilateral free trade agreement

Korea and New Zealand signed their bilateral free trade agreement in Seoul. The signing comes after President Park Geun-hye and Prime Minister John Key announced the conclusion of their trade negotiations on the sidelines of the G20 Brisbane summit in November.

While the two sides have agreed to remove tariffs on most of their traded goods in the next 15 years, they will also boost cooperation on agriculture and fisheries. During the summit talks, President Park and Prime Minister Key sought ways to strengthen cooperation in defense, ICT, health care and the environment.

http://www.arirang.co.kr/News/News_View.asp?nseq=177661

CUTS Comments

The FTA between Korea and New Zealand is likely to have some impacts on India's export. India and Korea are in deep competition in New Zealand's market (see Table 2.3). Trade statistics reveal that in 2014 the total value of India's export to Korea was approximately US\$ 4.8 billion, whereas that of New Zealand to Korea was approximately US\$ 1.5 billion. This shows that at the moment India is better positioned in the Korean market.

As shown in Table 2.1, India and New Zealand are competing in some product segments (in their top 10 exports) such as aluminum and articles thereof; and electrical, electronic equipment. However, in these competing product segments the annual export growth of India during 2010-2014 was greater than that of New Zealand.

India's Export to Korea (Export in 2014: US\$ 4785.99mn)		Sectors	New Zealand's Export to Korea (Export in 2014: US\$ 1459.8mn)	
Export Value in 2014 (US\$mn)	Annual Growth (2010-2014, %)		Export Value in 2014 (US\$mn)	Annual Growth (2010-2014, %)
1666.7	16	Mineral fuels, oils, distillation products, etc.	...	...
499.2	22	Aluminum and articles thereof	91.1	6
392.1	8	Iron and steel	...	...
301.5	8	Organic chemicals	...	...
220.7	25	Residues, wastes of food industry, animal fodder	...	...
220.1	-8	Cotton	...	...

131.6	9	Machinery, nuclear reactors, boilers, etc.	...	...
116.9	16	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	...	...
81.2	32	Electrical, electronic equipment	30.1	38
76.5	77	Optical, photo, technical, medical apparatus, etc.	...	...
		Commodities not elsewhere specified	362.5	38
		Wood and articles of wood, wood charcoal	302.1	8
		Meat and edible meat offal	127.4	3
		Dairy products, eggs, honey, edible animal product nes	94.5	2
		Pulp of wood, fibrous cellulosic material, waste etc	63.8	3
		Miscellaneous edible preparations	58.1	20
		Edible fruit, nuts, peel of citrus fruit, melons	45.2	3
		Albuminoids, modified starches, glues, enzymes	32.7	10
3706.46 (77%)		Top 10 Products (percentage of total export)	1207.44 (83%)	
<i>Source: International Trade Centre Database</i>				

At the same time, in 2014, India's export to New Zealand was valued at approximately US\$ 320 million, whereas that of Korea to New Zealand was approximately US\$ 1.7 billion. It is expected that New Zealand's imports from India may get affected further as a result of Korea-New Zealand FTA.

In 2014, India was the 22nd largest source of import for Korea and 21st largest source of import for New Zealand. Products like pharmaceutical products; vehicles other than railway, tramway; other made textile articles, sets, worn clothing etc.; pearls, precious stones, metals, coins, etc.; plastics and articles thereof; machinery, nuclear reactors, boilers, etc; and articles of apparel, accessories, not knit or crochet; and iron and steel are major exports from India to New Zealand.

If we compare the data from Table 2.2, India and Korea largely compete with each other in products such as vehicles other than railway, plastics and articles thereof; machinery, nuclear reactors, and iron and steel.

Also, if we look at export growth trend of these products during 2010 to 2014, it indicates that in most of these items, India is relatively better positioned. This situation may not change immediately after the signing of this FTA but it may affect India's trade in the long-run.

It was also observed that in products like pharmaceutical products; tramway; other made textile articles, sets, worn clothing etc.; pearls, precious stones, metals, coins, etc.; machinery, nuclear reactors, boilers, etc.; and articles of apparel, accessories, not knit or crochet, India has an edge over Korea. Because of this advantage, it has the potential to improve its overall position in the New Zealand's market.

Table 2.2				
India's Export to New Zealand (Export in 2014: US\$ 320.15mn)			Korea's Export to New Zealand (Export in 2014: US\$ 1738.70mn)	
Export Value in 2014 (US\$m)	Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$m)	Annual Growth (2010-2014, %)
37.47	11	Pharmaceutical products	...	...
24.53	37	Vehicles other than railway, tramway	313.33	16
20.55	18	Other made textile articles, sets, worn clothing etc.	...	
17.68	12	Pearls, precious stones, metals, coins, etc.	...	
13.90	30	Plastics and articles thereof	74.81	15
12.65	23	Machinery, nuclear reactors, boilers, etc.	129.34	26
12.32	20	Articles of apparel, accessories, not knit or crochet	...	
10.43	47	Iron and steel	55.27	6
8.45	18	Tanning, dyeing extracts, tannins, derivs, pigmentsetc	...	
7.86	24	Rubber and articles thereof	22.09	0
		Mineral fuels, oils, distillation products, etc.	800.20	38
		Electrical, electronic equipment	71.69	4
		Fish, crustaceans, molluscs, aquatic invertebrates, nes	52.97	-3
		Copper and articles thereof	44.88	68
		Paper and paperboard, articles of pulp, paper and board	18.48	-5
165.83 (52%)		Top 10 Products (percentage of total export)	1583.06 (91%)	

Source: International Trade Centre Database

The FKI in Table 2.3A varies between 0.05 and 0.11 and shows a decreasing trend over the years, indicating less similarity of exports of India and New Zealand to Korea than that of India and Korea to the New Zealand market. This means that at the aggregate level similarity of India and New Zealand's exports to Korea is decreasing and that of India and Korea's exports is increasing in the New Zealand market. On the other hand, the level of competition between India and Korea in the New Zealand market was moderate but increasing (Table 2.3B).

Similar to the results of the Finger-Kreinin Index, Table 1.3C shows that during 2010-2014 the RECPI of India with New Zealand were increasing indicating that the degree of competition between India and New Zealand in the Korean market is increasing (Table 2.3D).

Table 2.3: FKI and RECPI among India-Korea-New Zealand (2010-14)											
A. India's FKI with Korea						B. India's FKI with New Zealand					
Competitor	2010	2011	2012	2013	2014	Competitor	2010	2011	2012	2013	2014
New Zealand	0.08	0.05	0.07	0.11	0.06	Korea	0.076	0.073	0.061	0.089	0.057
C. India's RECPI with Korea						D. India's RECPI with New Zealand					
Competitor	2010	2011	2012	2013	2014	Competitor	2010	2011	2012	2013	2014
Korea	0.01	0.00	0.02	0.08	0.02	New Zealand	0.37	0.46	0.25	0.77	NA

Source: CUTS calculation using data from UN Comtrade via WITS 6-Digit and TradeSift software

Food for Thought

While India has a Comprehensive Economic Partnership Agreement with Korea, India and New Zealand are yet to have one and negotiation for an FTA is ongoing. Therefore, India should put more emphasis on completing its FTA with New Zealand.

3. Preferential trade deal between Iran & Turkey to turn into FTA

Customs and Trade Minister Nurettin Canikli has noted that the scope of the Preferential Trade Agreement signed between Turkey and Iran will eventually be extended and the agreement will be transformed into a free trade agreement. Canikli attended the Turkey-Iran Business Forum in Tehran, Iran.

The Preferential Trade Agreement, which came into force on Jan. 1, 2015, targets a trade volume of \$30 billion between the two countries. On whether a free trade agreement is on the future agenda, Canikli said the agreement currently offers discounts on custom fees of 125 goods for Turkey and 140 goods for Iran, yet the scope needs to be extended. He noted that the final target is for the agreement to evolve into a free trade agreement; however, this can only be achieved gradually. According to diplomatic sources, single customs clearance, the use of national currencies for trade activities and the scope of the Preferential Trade Agreement were discussed during the forum.

<http://www.dailysabah.com/money/2015/02/05/preferential-trade-deal-with-iran-to-turn-into-fta>

CUTS Comments

This FTA between Iran and Turkey is likely to have some impacts on India's export basket. Both Iran and Turkey are expected to substantially reduce their tariffs on each other's products. Though at present competition is not so detrimental for India the situation may change in the long-run.

Trade statistics reveal that in 2013 the total value of India's export from India Turkey was approximately US\$ 4.6 billion. In the same year, the value of Iran's export to Turkey was approximately US\$ 10.4 billion.

As shown in Table 3.1, India and Iran are competing in four product segments (in their top 10 exports) such as mineral fuels, oils, distillation products, etc.; organic chemicals; plastics and articles thereof; and manmade staple fibers.

Also, in the competing product segments the annual growth of export of Iran during 2009-2013 was higher than that of India. However, there are products like vehicles other than railway, tramway; manmade filaments; machinery, nuclear reactors, boilers, etc; iron and steel; electrical, electronic equipment; and tanning, dyeing extracts, tannins, derivs, pigments, etc., where India is likely to remain a leading player as compared to Iran.

Table 3.1				
India's Export to Turkey (Export in 2013: US\$ 4555.54mn)		Iran's Export to Turkey (Export in 2013: US\$ 10383.22mn)		
Export Value in 2013 (US\$mn)	Annual Growth (2009-2013, %)	Sectors	Export Value in 2013 (US\$mn)	Annual Growth (2009-2013, %)
815.7	91	Mineral fuels, oils, distillation products, etc.	9124.6	-63
466.5	45	Vehicles other than railway, tramway	...	...
332.4	66	Manmade filaments	...	...
311.1	19	Organic chemicals	124.1	66
307.0	50	Machinery, nuclear reactors, boilers, etc.	...	...
256.9	41	Plastics and articles thereof	520.6	37
240.8	16	Manmade staple fibres	26.9	183
217.4	36	Iron and steel	...	...
185.5	44	Electrical, electronic equipment	...	...
172.5	25	Tanning, dyeing extracts, tannins, derivs, pigments, etc.	...	...
		Copper and articles thereof	139.3	14
		Zinc and articles thereof	70.2	69
		Aluminum and articles thereof	68.3	49
		Iron and steel	59.3	47
		Fertilizers	40.5	519
		Lead and articles thereof	22.5	36
3305.80 (73%)		Top 10 Products (percentage of total export)	10196.34 (98%)	

Source: International Trade Centre Database

At the same time, when we talk about export from India to Iran, in 2013, it was valued at approximately US\$ 5.4 billion, whereas that of Turkey to Iran was approximately US\$ 4.2 billion. It is expected that Iran's import from India may get affected in some product segments.

India is the 10th largest import source for Turkey and 11th largest import source for Iran. As shown in Table 3.2, India and Turkey are competing in four product segments (in their top 10 exports) such as electrical, electronic equipment; iron and steel; machinery, nuclear reactors, boilers, etc.; and manmade staple fibres. Currently, India is better positioned than Turkey in

these product segments. However, in competing product segments the annual export growth of India during 2009-2013 was greater than that of Turkey.

It was also observed that in products like cereals; residues, wastes of food industry, animal fodder; organic chemicals; coffee, tea, mate and spices; meat and edible meat offal; and miscellaneous chemical products, India has an edge over Turkey. Because of this advantage, it has the potential to improve its overall position in Iran's market.

Table 3.2				
India's Export to Iran (Export in 2013: US\$ 5433.90mn)			Turkey's Export to Iran (Export in 2013: US\$ 4192.57mn)	
Export Value in 2013 (US\$mn)	Annual Growth (2009-2013, %)	Sectors	Export Value in 2013 (US\$mn)	Annual Growth (2009-2013, %)
2317.5	48	Cereals	...	...
835.0	139	Residues, wastes of food industry, animal fodder	...	...
264.5	34	Electrical, electronic equipment	144.4	7
245.2	0	Iron and steel	111.6	-13
198.9	19	Organic chemicals	...	...
153.1	4	Machinery, nuclear reactors, boilers, etc.	349.4	-1
134.8	24	Coffee, tea, mate and spices	...	...
133.2	83	Meat and edible meat offal	...	...
95.9	19	Manmade staple fibres	91.0	-23
88.4	22	Miscellaneous chemical products	...	...
		Pearls, precious stones, metals, coins, etc.	1679.1	618
		Plastics and articles thereof	208.6	16
		Wood and articles of wood, wood charcoal	129.6	-3
		Tobacco and manufactured tobacco substitutes	113.0	28
		Paper and paperboard, articles of pulp, paper and board	112.3	41
		Articles of iron or steel	107.3	8
4466.52 (82%)		Top 10 Products (percentage of total export)	3046.22 (73%)	

Source: International Trade Centre Database

There was less similarity of export from India and Turkey to Iran and that of India to Iran. The FKI in Table 3.3A varied between 0.06 and 0.11 and there was no tendency to increase over time. This means at the aggregate level India and Iran's exports are neither similar nor comparable in the Turkey's market. On the other hand, the level of export similarity between India and Turkey in Iran's market was low and stable.

Furthermore, the RECPIs between India and Iran and that between India and Turkey indicate that export competitiveness was very low for India with both Iran and Turkey in their respective markets (see Table 3.3C and D).

Table 3: FKI and RECPI among India-Turkey-Iran (2010-14)											
A. India's FKI with Turkey						B. India's FKI with Iran					
Competitor	2010	2011	2012	2013	2014	Competitor	2010	2011	2012	2013	2014
Iran	NA	0.12	NA	NA	NA	Turkey	0.107	0.118	0.056	0.074	0.092
C. India's RECPI with Turkey						D. India's RECPI with Iran					
Competitor	2010	2011	2012	2013	2014	Competitor	2010	2011	2012	2013	2014
Turkey	NA	0.06	NA	NA	NA	Iran	0.01	0.01	0.00	0.00	0.01

Source: CUTS calculation using data from UN Comtrade via WITS 6-Digit and TradeSift software

Food for Thought

Though the potential is high and far from reaching its potential, a more positive approach is the need of the time for India. India and Turkey and India and Iran do not have bilateral trade and investment agreements. In the wake of expected changes in trade in goods, services as well as investment relationship among India, Iran and Turkey, and also changing geo-political scenarios vis-à-vis Iran's economic relations with the rest of the world, India should start negotiations for a comprehensive economic partnership agreement with Iran as well as Turkey.