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

Contents

1. EU, Japan determined to deliver trade deal by end of 2017

European Commission President Jean-Claude Juncker, said he was very confident of a swift agreement this year. Our negotiations with Japan are now in a decisive and hopefully final stage. This agreement is necessary, because we believe in free, fair and rules-based trade. Japan is the EU's sixth largest trading partner in the world. For Japan, the EU occupies third place. The volume of trade between the two amounted to an estimated €125 billion in 2016…The EU-Japan trade deal is comparable to the Comprehensive Economic and Trade Agreement (CETA), negotiated between the EU and Canada, an EU official said. But at the moment, the FTA between the EU and Japan resembles the one concluded between the EU and South Korea in 2011, and seems to be the likeliest outcome politically, experts say.

(https://www.euractiv.com/section/economy-jobs/news/eu-japan-determined-to-deliver-trade-deal-by-end-of-2017/)

CUTS Comments

Japan and the European Union (EU) are confident of agreeing to a trade agreement this year. This new trade equation between them is likely to have some impact on India's export basket. Though at present competition is moderate, the situation may change in favour of the EU as well as Japan in both short- and long-run.

Trade statistics reveal that in 2016 the total value of India's export to the EU was approximately US$ 45.75 billion. In the same year, the value of Japan's export to the EU was approximately US$ 73.86 billion.

As shown in Table 1.1, India and Japan are competing in five product segments (in their top 10 exports) such as pearls, precious or semi-precious stones; organic chemicals; vehicles other than railway or tramway rolling stock; machinery, mechanical appliances, nuclear reactors, etc.; and electrical machinery and equipment and parts thereof. In the competing product segments the annual growth of export of India during 2012-2016 was relatively better than that of Japan except in products of precious and semi-precious stones.

Also, there are products like articles of apparel: not knitted or crocheted; articles of apparel: knitted or crocheted; mineral fuels, mineral oils and products of their distillation; iron and steel; and pharmaceutical products, where India is likely to remain a leading player as compared to Japan.

Table 1.1

India's Export to the EU (Export in 2016: US$ 45751.59mn)			**Japan's Export to the EU (Export in 2016: US$ 73865.75mn)**	
Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)	Sectors	Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)
3341.1	-6.3	Pearls, precious or semi-precious stones	2841.8	53.3
3188.6	1.9	Articles of apparel: not knitted or crocheted	…	…
3008.7	4.8	Organic chemicals	1810.9	-23.7
2984.9	26.2	Articles of apparel: knitted or crocheted	…	…
2909.8	31.7	Vehicles other than railway or tramway rolling stock	17838.2	12.1
2838.4	22.1	Machinery, mechanical appliances, nuclear reactors, etc.	16742.9	-18.9
2273.4	-70.1	Mineral fuels, mineral oils and products of their distillation	…	…
1895.9	-26.4	Electrical machinery and equipment and parts thereof	9976.8	-25.7
1802.2	12.0	Iron and steel	…	…
1561.1	14.4	Pharmaceutical products	…	…
		Optical, photographic, cinematographic, measuring, checking, precision, medical etc.	5589.6	-15.6
		Commodities not elsewhere specified	4410.0	-13.6
		Plastics and articles thereof	1652.1	-14.7
		Rubber and articles thereof	1314.8	-32.3
		Ships, boats and floating structures	1244.3	26.7
25803.87 (56%)		**Top 10 Products (percentage of total export)**	63421.2 (86%)	

Source: International Trade Centre Database

At the same time, when we talk about export from India to Japan, in 2016, it was valued at approximately US$ 3.8 billion, whereas that of the EU to Japan was approximately US$ 62.76 billion. As a result of this FTA Japan's import from India may get affected in the short-run (see Table 1.2).

India is the 25th and 26th largest import source for the EU and Japan, respectively. As shown in Table 1.2, India and the EU are competing in four product segments (in their top 10 exports) such as organic chemicals; machinery, mechanical appliances, nuclear reactors, boilers; vehicles other than railway or tramway rolling stock; and electrical machinery and equipment and parts thereof.

It is also observed that in products like mineral fuels, mineral oils and products of their distillation; fish and crustaceans, molluscs; pearls, precious or semi-precious stones; articles of apparel: not knitted or crocheted; iron and steel; and miscellaneous chemical products, India has an edge over the EU in Japan's market. Because of this advantage, it has the potential to improve its overall position in Japan's market.

Table 1.2

India's Export to Japan (Export in 2016: US$ 3827.164mn)			**EU's Export to Japan (Export in 2016: US$62764.63mn)**	
Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)	Sectors	Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)
649.9	-76.9	Mineral fuels, mineral oils and products of their distillation	…	…
399.0	37.0	Organic chemicals	2573.8	-38.4
381.7	12.4	Fish and crustaceans, molluscs	…	…
296.9	-17.2	Pearls, precious or semi-precious stones	…	…
245.8	69.8	Machinery, mechanical appliances, nuclear reactors, boilers	8215.8	1.1
196.2	81.2	Vehicles other than railway or tramway rolling stock	10354.4	-0.2
151.4	-24.8	Articles of apparel: not knitted or crocheted	…	…
139.7	-43.9	Iron and steel	…	…
119.3	89.9	Miscellaneous chemical products	…	…
107.2	-0.5	Electrical machinery and equipment and parts thereof	3610.5	-16.3
		Pharmaceutical products	8861.4	-5.9
		Optical, photographic, cinematographic	5668.4	-15.6
		Meat and edible meat offal	1536.0	26.3
		Beverages, spirits and vinegar	1287.0	-16.0
		Wood and articles of wood; wood charcoal	1235.7	-4.0
		Plastics and articles thereof	1231.1	-14.2
2687.2 (70%)		**Top 10 Products (percentage of total export)**	44574.17 (71%)	

Source: International Trade Centre Database

Given this composition of trade among the 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 in a destination country. 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.

There was moderate similarity of export from India and the EU to Japan as well as from India and Japan to the EU. The FKI in Table 1.3A varied between 0.17 and 0.19. This means that at the aggregate level India's and Japan's exports are to some extent more similar than that of India's and EU's.

Furthermore, the RECPIs between India and the EU and that between India and Japan indicate that export competitiveness was moderate to high for India and Japan in the EU's market, but the same is not that intense in Japan's market (see Table 1.3C&D).

Table 1.3: FKI and RECPI among India-EU-Japan (2013-16)

A. India's FKI with EU						**B. India's FKI with Japan**				
Competitor	2013	2014	2015	2016		Competitor	2013	2014	2015	2016
Japan	0.17	0.17	0.18	0.19		EU	0.14	0.14	0.17	0.19
C. India's RECPI with EU						**D. India's RECPI with Japan**				
Competitor	2013	2014	2015	2016		Competitor	2013	2014	2015	2016
Japan	0.08	0.06	0.12	0.17		EU	0.17	0.17	0.52	0.68

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

Food for Thought

Though the trade potential is high and untapped yet among India, the EU and Japan, a more positive approach is the need of the hour for India. As a result of this FTA, a wide range of the EU's and Japan's products will receive further preferential treatment in their respective markets. In the wake of expected changes in trade in goods, services as well as investment relationship among India, the EU and Japan, India should look at possible changes in its composition of trade with these countries. Along with reviewing the existing CEPA with Japan, India's proposed FTA with the EU may be fast tracked. Furthermore, it should undertake additional trade facilitation measures to improve its supply chain as well as trade competitiveness.

2. South Korea tentatively signs FTA with 5 Central American countries

South Korea and a group of Central American countries have tentatively signed a free trade agreement. The Ministry of Trade, Industry and Energy said Sunday that the signing ceremony was held in San José, Costa Rica last Friday, with representatives from South Korea, Costa Rica, El Salvador, Nicaragua, Honduras and Panama attending. The two sides agreed to formally sign the trade pact as soon as possible, which will go into effect following parliamentary ratification. A ministry official said that it is the first free trade deal between an Asian country and the group of Central American countries. He expected that the trade pact will allow South Korea to make its way into the Central American market with great growth potential, and get a head start over rival countries like Japan and China…

(http://wtocenter.vn/news/s-korea-tentatively-signs-fta-5-central-american-countries)

CUTS Comments

The new trade deal between South Korea and this Group of Central American Countries (GCACs) is likely to have some impact on the export basket of India. Our research based on ITC database and TradeSift software shows that India and GCACs are competing in a relatively moderate numbers of products in South Korea's market.

Trade statistics reveal that in 2016 the total value of India's export to South Korea was approximately US$ 3.5 billion. In the same year, total value of GCACs' export to South Korea was approximately US$ 66.4 million.

As shown in Table 2.1, India and GCAC countries are competing in four product segments (among their top 10 exports to South Korea) such as aluminum and articles thereof; iron and steel; electrical machinery and equipment and parts thereof; and optical, photographic, cinematographic, measuring. Currently, India is better placed than GCAC countries in these product segments and as a result of this FTA it may not affect India's export interest in South Korea's market in the short-run.

Table 2.1				
India's Export to South Korea (Export in 2016: US$ 3465.34mn)			**GCAC's Export to South Korea (Export in 2016: US$66.4mn)**	
Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)	Sectors	Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)
625.7	-46.7	Mineral fuels, mineral oils and products of their distillation	…	…
536.7	102.5	Aluminium and articles thereof	3.1	-72.2
316.3	-7.8	Organic chemicals	…	…
272.3	-34.7	Iron and steel	6.6	-86.3
183.9	-10.6	Cotton	…	…
157.9	57.5	Machinery, mechanical appliances, nuclear reactors, boilers	…	…
95.7	-41.0	Pearls, precious or semi-precious stones	…	…
89.4	-58.0	Residues and waste from the food industries; prepared animal fodder	…	…
89.1	43.2	Electrical machinery and equipment and parts thereof	2.1	-91
83.0	516.7	Optical, photographic, cinematographic, measuring	6.8	325
		Coffee, tea, maté and spices	26.7	-54.9
		Ores, slag and ash	7.0	NA
		Edible fruit and nuts; peel of citrus fruit or melons	4.9	1951.0
		Lead and articles thereof	2.8	-32.8
		Live trees and other plants; bulbs, roots and the like; cut flowers and etc.	1.1	32.2
		Copper and articles thereof	0.8	-84.6
2450.14 (71%)		**Top 10 Products (percentage of total export)**	62.02 (93%)	
Source: International Trade Centre Database				

In 2016, India's export to GCAC countries was valued at approximately US$ 653.6 million and South Korea's export to GCAC countries was approximately US$ 2.03 billion. Following this FTA it is expected that India's export to GCAC countries may get affected in some product segments. Though South Korea's export similarity and complementarity are low to moderate (see Table 2.3), trade diversion in favour of South Korea as well as GCAC countries may not be ruled out.

In 2016, India was the 23rd largest and 16th largest importing sources for South Korea and GCAC countries, respectively. Products like vehicles other than railway or tramway rolling stock; pharmaceutical products; tanning or dyeing extracts; tannins and their derivatives; articles of apparel: knitted or crocheted; machinery, mechanical appliances, nuclear reactors, boilers; miscellaneous chemical products; man-made staple fibres; articles of apparel: not knitted or crocheted; electrical machinery and equipment and parts thereof; and rubber and articles thereof, are major export items from India to GCACs. If we compare the data shown in Table 2.2, India and Korea compete with each other in five of those product segments.

Additionally, if we look at export growth trend of these products during 2012 to 2016, it indicates that in most of them India is relatively better positioned. This situation may change after this FTA along with a distinct long-term impact. In order to strengthen its position in these markets, India requires necessary measures, such as new trade deals with GCAC countries, to maintain and increase market access of its products in these countries.

Table 2.2				
India's Export to GCAC Countries (Export in 2016: US$653.6mn)			**South Korea's Export to GCAC Countries (Exports in 2016: US$ 2031.64mn)**	
Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)	Sectors	Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)
231.1	152.0	Vehicles other than railway or tramway rolling stock	462.3	-3.3
61.9	22.8	Pharmaceutical products	16.5	105.6
52.0	99.3	Tanning or dyeing extracts; tannins and their derivatives	…	…
43.0	-50.2	Articles of apparel: knitted or crocheted	…	…
28.3	73.2	Machinery, mechanical appliances, nuclear reactors, boilers	74.2	-38.3
23.9	95.2	Miscellaneous chemical products	…	…
21.3	38.8	Man-made staple fibres	…	…
21.2	-34.3	Articles of apparel: not knitted or crocheted	…	…
17.4	22.2	Electrical machinery and equipment and parts thereof	79.9	-55.4
15.6	-34.5	Rubber and articles thereof	31.0	-35.4
		Ships, boats and floating structures	1094.1	-67.8
		Iron and steel	68.3	-47.5
		Knitted or crocheted fabrics	55.1	-44.0
		Plastics and articles thereof	33.1	6.6
		Articles of iron or steel	14.9	-66.0
515.5 (79%)		**Top 10 Products (percentage of total export)**	1929.3(95%)	
Source: International Trade Centre Database				

The FKIs in Table 2.3B varies between 0.10 and 0.15 and shows some increasing tendency that indicate some similarity of export of India and South Korea to GCAC countries. This means that at the aggregate level and to some extent India and South Korea were competing in the market of GCAC countries. At the same time, the level of export similarity between India and GCAC countries in South Korea's market was also low and stable (Table 2.3A). This means that the competition between India and GCAC countries in South Korea's market was less than that of India and South Korea in the market of GCAC countries.

Similar to the results of the Finger-Kreinin Index, Table 2.3C shows that during 2013 to 2016 the RECPIs of India with South Korea were low (negligible), indicating very low competition between India and GCAC countries in South Korea's market. On the other hand, India's RECPI with GCAC countries is moderate and increasing, indicating that the level of competition is increasing between India and South Korea in the market of GCAC countries (Table 2.3D).

Table 2.3: FKI and RECPI among India-South Korea-GCACs (2013-16)										
A. India's FKI with South Korea						**B. India's FKI with GCACs**				
Competitor	2013	2014	2015	2016		Competitor	2013	2014	2015	2016
GCACs	0.02	0.02	0.02	0.02		South Korea	0.10	0.11	0.15	NA
C. India's RECPI with South Korea						**D. India's RECPI with GCACs**				
Competitor	2013	2014	2015	2016		Competitor	2013	2014	2015	2016
GCACs	0.00	0.00	0.00	0.00		South Korea	0.97	0.79	1.14	NA
Source: CUTS calculation using data from UN Comtrade via WITS 6-Digit and TradeSift software										

Food for Thought

As a result of this FTA, a wide range of South Korean and GCAC countries' products will receive reciprocal preferential treatment in their respective market. India is connected with South Korea under the India-South Korea Comprehensive Economic Partnership Agreement (CEPA). In the wake of expected changes in trade in goods, services as well as investment relationship among India, South Korea and GCAC countries, India should put more emphasis in strengthening its trade and investment relations with GCAC countries and at the same time strengthen its supply chains to gain more in the markets of South Korea as well as GCAC countries.

3. Eurasian Economic Union, Singapore May Sign Free Trade Deal in 2017

The Eurasian Economic Union (EAEU) and Singapore may sign a free trade agreement by the end of 2017 and ratify it in the first half of 2018, Russian First Deputy Prime Minister Igor Shuvalov said Friday. During the ASEAN-Russia meeting in Sochi in May, certain ASEAN (Association of Southeast Asian Nations) members suggested signing a free trade agreement, and we have clear instructions from the Russian president that the agreement with Singapore is a priority. I confirm that we have all possibilities to sign this agreement by the end of 2017 in order to carry out ratification procedures in the first half of 2018.

(http://www.brics-info.org/eurasian-economic-union-singapore-may-sign-free-trade-deal-in-2017/)

CUTS Comments

The new trade agreement between EAEU countries and Singapore is likely to have some impact on India's export. Trade statistics reveal that in 2016 the total value of India's export to EAEU countries was approximately US$ 2.04 billion, whereas that of Singapore to EAEU countries was approximately US$ 561.4 million.

As shown in Table 3.1, India and Singapore are competing in some product segments (in their top 10 exports) such as pharmaceutical products; machinery, mechanical appliances, nuclear reactors, boilers; and electrical machinery and equipment and parts thereof. In most of these competing product segments, the annual export growth of Singapore has gained momentum during 2012-2016. The new trade equation may accelerate this growth momentum in favour of Singapore and further strengthen its position in EAEU's market in these product segments.

Table 3.1				
India's Export to EAEU Countries (Export in 2016: US$2039.13 mn)			**Singapore's Export to EAEU Countries (Export in 2016: US$ 561.41mn)**	
Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)	Sectors	Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)
390.5	-30.1	Pharmaceutical products	46.4	41.5
209.9	154.0	Machinery, mechanical appliances, nuclear reactors, boilers	148.4	-4.2
151.0	-17.8	Coffee, tea, maté and spices	…	…
111.7	-34.8	Aircraft, spacecraft, and parts thereof	…	…
98.3	113.4	Organic chemicals	…	…
77.7	-75.9	Electrical machinery and equipment and parts thereof	100.6	-32.5
70.7	-12.6	Vehicles other than railway or tramway rolling stock	…	…
66.1	-22.8	Miscellaneous edible preparations	…	…
59.9	11.0	Tobacco and manufactured tobacco substitutes	…	…
59.4	103.8	Fish and crustaceans, molluscs	…	…
		Optical, photographic, cinematographic, measuring	66.7	7.8
		Plastics and articles thereof	36.9	59.7
		Commodities not elsewhere specified	33.6	NA
		Articles of iron or steel	21.4	31.2
		Cocoa and cocoa preparations	19.8	635.4
		Ships, boats and floating structures	18.3	-5.6
		Mineral fuels, mineral oils and products of their distillation	16.2	137.4
1295.1 (64%)		**Top 10 Products (percentage of total export)**	508.23 (91%)	
Source: International Trade Centre Database				

In 2016, India's export to the Singapore was valued at approximately US$ 7.4 billion, whereas that of EAEU countries to Singapore was approximately US$ 1.9 billion. It is expected that India's export interest may get further affected as a result of EAEU-Singapore free trade agreement.

In 2016, India was the 19th largest source of import for EAEU countries and the 13th largest source of import for Singapore. Products like mineral fuels, mineral oils and products of their distillation; ships, boats and floating structures; pearls, precious or semi-precious stones; machinery, mechanical appliances, nuclear reactors; organic chemicals; copper and articles thereof; aircraft, spacecraft, and parts thereof; electrical machinery and equipment and parts thereof; optical, photographic, cinematographic; and essential oils and resinoids; perfumery are major exports from India to Singapore.

If we compare the data from Table 3.2, India and EAEU countries largely compete with each other in products such as mineral fuels, mineral oils and products of their distillation; machinery, mechanical appliances, nuclear reactors; copper and articles thereof; and commodities not elsewhere specified. In terms of annual growth of export during 2012-16, in these product segments, EAEU countries have an edge over India. Because of this advantage, it has the potential to further improve its overall position in Singapore's market.

Table 3.2				
India's Export to Singapore (Export in 2016: US$ 7389.67mn)			**EAEU's Export to Singapore (Export in 2016: US$1870.62mn)**	
Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)	Sectors	Export Value in 2016 (US$mn)	Annual Growth (2012-2016, %)
3482.7	-57.4	Mineral fuels, mineral oils and products of their distillation	1709.4	13.6
721.5	-49.1	Ships, boats and floating structures	…	…
529.1	-10.4	Pearls, precious or semi-precious stones	…	…
392.8	6.2	Machinery, mechanical appliances, nuclear reactors	23.0	31.8
323.7	-48.5	Organic chemicals	…	…
288.9	3758.0	Copper and articles thereof	4.4	87480.0
229.4	70.6	Aircraft, spacecraft, and parts thereof	…	…
224.3	1.7	Electrical machinery and equipment and parts thereof	…	…
166.5	-34.8	Optical, photographic, cinematographic	…	…
68.0	-14.0	Essential oils and resinoids; perfumery	…	…
		Commodities not elsewhere specified	48.9	NA
		Lead and articles thereof	20.1	NA
		Miscellaneous chemical products	11.2	748.2
		Ores, slag and ash	7.5	-56.5
		Fertilisers	6.1	1288.9
		Nickel and articles thereof	5.5	3287.0
		Aluminium and articles thereof	4.4	124.8
6426.73 (87%)		**Top 10 Products (percentage of total export)**	1840.45 (98%)	
Source: International Trade Centre Database				

The FKI in Table 3.3B varies between 0.03 and 0.52, indicating moderate similarity of exports of India and EAEU countries to Singapore. This means that at the aggregate level and to some extent there is more similarity of India's and EAEU's exports to Singapore than that of India's and Singapore's in EAEU's market (Table 3.3A&B).

Similar to the results of the Finger-Kreinin Index, Table 3.3D shows that during 2013-2016 India's RECPIs with Singapore were moderate indicate that the degree of competition between India and EAEU countries in Singapore's market was increasing. However, the competition between India and Singapore in EAEU's market is low (Table 3.3C).

Table 3.3: FKI and RECPI among India-EAEU-Singapore (2013-16)										
A. India's FKI with EAEU						**B. India's FKI with Singapore**				
Competitor	2013	2014	2015	2016		Competitor	2013	2014	2015	2016
Singapore	0.09	0.09	0.07	NA		EAEU	0.34	0.52	0.36	0.03
C. India's RECPI with EAEU						**D. India's RECPI with Singapore**				
Competitor	2013	2014	2015	2016		Competitor	2013	2014	2015	2016
Singapore	0.00	0.01	0.01	NA		EAEU	0.08	0.75	0.55	0.00
Source: CUTS calculation using data from UN Comtrade via WITS 6-Digit and TradeSift software										

Food for Thought

Though the trade potential is high and untapped yet among India, EAEU countries and Singapore, a more positive approach is the need of the hour for India. As a result of this FTA, a wide range of EAEU's and Singapore's products will receive further preferential treatment in their respective market. In the wake of expected changes in trade in goods, services as well as investment relationship among India, EAEU countries and Singapore, India should look at possible changes in its composition of trade with these countries. At the same time, India's proposed comprehensive economic cooperation agreement with EAEU countries may be fast tracked, with a particular emphasis on strategic commodities such as oil and natural gas, potash, along with a review of its existing CECA with Singapore. Furthermore, it should undertake additional trade facilitation measures to improve its supply chain as well as trade competitiveness.