CUTS Dossier on Preferential Trade Agreements
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1. Singapore-Sri Lanka trade agreement: Opening the gates for free trade

Singapore and Sri Lanka are committed to concluding negotiations on a free trade agreement before the end of this year. "It will be a modern, comprehensive, high-quality, ambitious free trade agreement. It will demonstrate to the world that both of us are open for business and we encourage all investments," Vivian Balakrishnan, Singapore Minister for Foreign Affairs said after talks with his counterpart Ravi Karunanayake. With the free trade agreement, he said, Singapore can serve as Sri Lanka's gateway to South-east Asia, while Sri Lanka will be Singapore's gateway in the Indian Ocean. Dr Balakrishnan said he was encouraged by the rapid developments in Colombo and the growth potential in Sri Lanka, which has led to a surge of interest from Singapore companies. There are currently more than 350 Singapore companies in Sri Lanka, across a wide range of sectors.

(http://www.straitstimes.com/asia/singapore-and-sri-lanka-committed-to-concluding-fta-talks-by-end-2017)

CUTS Comments

Singapore and Sri Lanka are among the major destinations of India's exports. Rank-wise, Singapore is the fifth largest export destination and Sri Lanka is at the 19th position (Indian Trade Portal, 2016). Although India is already into trade agreements with Sri Lanka (India-Sri Lanka Free Trade Agreement (ISFTA)) and with Singapore (Comprehensive Economic Cooperation Agreement (CECA)), but the present agreement (Sri Lanka-Singapore FTA) is likely to reduce the market share enjoyed by Indian exports in Sri Lanka and Singapore.

India and Singapore's top 10 exported products with their export value in 2016 to Sri Lanka and compound annual growth rate (CAGR) over 2012-16 are shown in Table 1.1. The share of a particular product export in total export is given in parenthesis.

Only one product - petroleum oils & oils obtained from bituminous minerals (other than crude) - is a common exported product from India and Singapore to Sri Lanka. Apparently, this product captures highest share in India (8.10%) and Singapore's (28.26%) export baskets of all of their exported products to Sri Lanka.

Table 0.1: India and Singapore's Top Ten Exports to Sri Lanka

Product Code	Product Description	India's Exports to Sri Lanka		Singapore's Exports to Sri Lanka	
		Export Value in 2016 (US$ mn)	CAGR (2012-16)	Export Value in 2016 (US$ mn)	CAGR (2012-16)
271019	Petroleum oils & oils obtained from bituminous minerals (other than crude)	333.43 (8.10)*	-4.11	375.51 (28.26)	-17.38
871120	Motorcycles (incl. mopeds) & cycles fitted with an auxiliary motor	208.52 (5.06)	15.12	--	--
300490	Medicaments	138.24 (3.36)	9.82	--	--
890510	Dredgers	121.80 (2.96)	19.06	--	--
870321	Vehicles principally designed for the transport of persons	121.73 (2.96)	-4.80	--	--
252329	Portland cement (excl. white cement, whether/not artificially coloured)	120.38 (2.92)	13.68	--	--
870421	Motor vehicles for the transport of goods	96.19 (2.33)	0.58	--	--
090420	Fruits of the general Capsicum/Pimenta, dried/crushed/ground	86.73 (2.11)	17.94	--	--
890690	Vessels, n.e.s. in 89.01-8906.10, incl. lifeboats other than rowing boats	79.56 (1.93)	7.25	--	--
170199	Cane/beet sugar & chemically pure sucrose, in solid form	55.20 (1.34)	-18.06	--	--
271011	Light petroleum oils & preparations	--	--	244.86 (18.43)	41.89
851712	Telephones for cellular networks/for other wireless networks	--	--	37.58 (2.83)	46.58
711319	Articles of jewellery & parts thereof	--	--	31.60 (2.38)	-0.75
847130	Portable automatic data processing machines	--	--	28.54 (2.15)	-2.12
999999	Commodities not specified according to kind	--	--	21.24 (1.60)	-8.93
844399	Other parts & accessories for printing machinery excl. 8443.91	--	--	19.16 (1.44)	9.09
847330	Parts & accessories of the machines of heading 84.71	--	--	19.04 (1.43)	-13.79
845229	Sewing machines (excl. h-hold. type; excl. book-sewing machines of 84.40	--	--	18.66 (1.40)	8.44
851762	Machines for the reception, conversion & transmission/regeneration of voice	--	--	12.64 (0.95)	11.22
Sub-Total**		**1361.80 (33.07)**		**808.84 (60.87)**	
Total Exports in 2016		**4118.25**		**1328.84**	

Notes: * Values in the parenthesis are export share of the particular product in total export; ** Summation of the top ten exported products
Source: WITS database

Five years CAGR of Indian exports of petroleum oils & oils obtained from bituminous minerals (other than crude) to Sri Lanka is negative (-4.11%) but this is relatively less in comparison to CAGR of Singapore's exports (-17.38%) to Sri Lanka.

Table 0.2: India and Sri Lanka's Top Ten Exports to Singapore

Product Code	Product Description	India's Exports to Singapore		Sri Lanka's Exports to Singapore	
		Export Value in 2016 (US$ mn)	CAGR (2012-16)	Export Value in 2016 (US$ mn)	CAGR (2012-16)
271019	Petroleum oils & oils obtained from bituminous minerals (other than crude)	2004.80 (27.25)*	-9.66	18.24 (15.79)	36.43
271011	Light petroleum oils & preparations	1364.90 (18.55)	-27.67	--	--
890400	Tugs & pusher craft	358.85 (4.87)	-2.22	--	--
890590	Light-vessels, fire-floats, floating cranes & other vessels	261.77 (3.55)	-21.42	--	--
711319	Articles of jewellery & parts thereof	194.78 (2.64)	-10.83	2.71 (2.35)	90.85
710231	Diamonds, non-industrial, unworked/simply sawn/cleaved/bruted	187.23 (2.54)	440.87	--	--
880330	Parts of aeroplanes/helicopters, other than propellers, rotors, under-carriages & parts thereof	176.78 (2.40)	12.68	--	--
710239	Diamonds, non-industrial other than unworked/simply sawn/cleaved/bruted	96.22 (1.30)	-19.99	--	--
290220	Benzene	64.32 (0.87)	2.51	--	--
100630	Semi-milled/wholly milled rice	51.22 (0.69)	-2.36	--	--
890190	Vessels for the transport of goods & for the transport of both persons & goods	--	--	25.32 (21.93)	-1.70
250610	Quartz, other than natural sands	--	--	3.43 (2.97)	0.13
110100	Wheat/meslin flour	--	--	2.84 (2.46)	-18.99
90230	Pasta	--	--	2.56 (2.22)	1.87
710391	Rubies, sapphires & emeralds, worked othw.	--	--	2.42 (2.10)	191.61
853225	Fixed electrical capacitors	--	--	2.30 (1.99)	-2.61
200819	Nuts (excl. ground-nuts.	--	--	2.13 (1.84)	16.76
30624	Crabs, whether/not in shell, other than frozen	--	--	1.98 (1.71)	3.18
Sub-Total**		**4760.92 (64.73)**		**63.97 (55.40)**	
Total Export Value in 2016		**7354.85**		**115.46**	

Notes: * Values in the parenthesis are export share of the particular product in total exports; ** Summation of the top ten exported products
Source: WITS database

As Singapore and Sri Lanka are joining their hands through this FTA, which may reverse the current trend of CAGR of Singapore's exports at the cost of decline in Indian exports to Sri Lanka, this may further pull down the growth of Indian exports of the same product to Sri Lanka.

Table 1.2 shows the information about the top ten exports of India and Sri Lanka to Singapore with their corresponding export shares and CAGR. These top ten exports of India and Sri Lanka are contributing 64.7 % and 55.4% in the total exports of these countries to Singapore, out of which the competing products, namely, petroleum oils & oils obtained from bituminous minerals (other than crude) and articles of jewellery & parts thereof are contributing 27.2% & 2.6% and 15.8% & 2.3% for the respective exporting countries. In absolute terms, Indian exports of these two products are 110 times and 18 times higher than the Sri Lankan exports of same products to Singapore.

As India is already enjoying 100 per cent duty concession on the exports of these two products to Singapore, therefore, it can be assessed that the future FTA between Singapore and Sri Lanka cannot affect India's trade in these products and if it does so, then, the magnitude will be very small.

Given this descriptive analysis of trade among India, Singapore and Sri Lanka, the following analysis is going to examine the similarity and competitiveness among the exports of these three countries to each other through some trade indicators. For this, two well-known indicators are Finger-Kreinin Index (to test the similarity in export structures) and Relative Export Competitive Pressure Index (to test the level of competitiveness in export structures).

The Finger-Kreinin Index (FKI) measures the degree of homogeneity of trade (exports or imports) of two sets of countries with respect to the third (destination) country. The value of this index ranges from zero to one. If FKI = 1, then export structures would be exactly similar (homogeneous) and if FKI = 0, then, the export structures do not have any similarity (heterogeneous).

The Relative Export Competitive Pressure Index (RECPI) calculates the level of competitive pressure a country faces from other country in a particular destination country. Suppose country X and country Y are exporting in the country Z's market. If country X's exports are 'n' times larger than the country Y's exports to country Z but these exports are entirely in different sectors when compared to country Y, then the RECPI will be equal to zero. If country X's exports are 'n' times larger than the country Y's exports to country Z but these exports are entirely in same sectors as that of country Y, then, the competition pressure will be high for country Y and hence, the RECPI will be equal to 'n'.

Table 0.3A shows that the FKI of India and Singapore in the Sri Lankan market is low and stagnant, while the FKI of India and Sri Lanka in Singapore's market is also low but increasing over time, which means that Sri Lankan exports are getting similar as with India's exports to Singapore. As Singapore is going to give preference to Sri Lanka through this trade agreement, therefore, there is a high possibility that its imports will be diverted from India to Sri Lanka.

Table 0.3: FKI and RECPI among India, Sri Lanka and Singapore (2013-16)

A. India's FKI with Sri Lanka

Competitor	2013	2014	2015	2016
Singapore	0.22	0.17	0.23	0.20

B. India's FKI with Singapore

Competitor	2013	2014	2015	2016
Sri Lanka	0.05	0.15	0.21	0.23

C. India's RECPI with Sri Lanka

Competitor	2013	2014	2015	2016
Singapore	0.53	0.08	0.19	0.38

D. India's RECPI with Singapore

Competitor	2013	2014	2015	2016
Sri Lanka	0.00	0.00	0.00	0.01

Source: TradeSift calculations using data from Comtrade via WITS 6-Digit

RECPI index of India and Singapore (Table 1.3C) is low in the Sri Lankan market, which shows very low level of competitive pressure on India from Singapore when trading with Sri Lanka. Additionally, the competitive pressure faced by India from Sri Lanka in the Singapore market is almost zero as evident from Table 1.3D.

Food for Thought

The collaboration between Singapore with Sri Lanka is going to have a moderate impact on the export markets of India in these two nations. This is because India and Singapore are in less competition in their exports to Sri Lanka. Extra preference to Singapore can divert Sri Lankan trade from India to Singapore, therefore, ISFTA should be strengthened to minimise the possible adverse effects of Singapore-Sri Lankan tie up. On the other hand, relative to Sri Lanka, India is a big player in the Singapore's market and, also, there is no competitive pressure from Sri Lankan side. Therefore, there may not be much of an adverse impact of Singapore-Sri Lanka trade agreement on India's trade with Singapore.

2. Indonesia-Australia trade negotiations: Breaking the walls of trade barriers

Australian and Indonesian Trade Ministers reactivated negotiations in March 2016 after they were first launched by Leaders' in 2010. The Indonesia-Australia Comprehensive Economic Partnership (IA-CEPA) will create the framework for a new era of closer economic engagement between Australia and Indonesia and open new markets and opportunities for businesses, primary producers, service providers and investors. Economic cooperation under IA-CEPA could assist in the implementation of the agreement, support trade facilitation and provide a pathway for future liberalisation.

(http://dfat.gov.au/trade/agreements/iacepa/pages/indonesia-australia-comprehensive-economic-partnership-agreement.aspx)

CUTS Comments

Geographical proximity of Indonesia and Australia provides huge potential for trade between these two nations but both nations are trading below their potential level. Through IA-CEPA they attempt to achieve a higher level of potential trade which may have repercussions for India.

India has trade agreement with ASEAN countries where Indonesia is one of the members but is yet to have such an agreement with Australia. Indian exporters have been exporting to Australia at Most Favoured Nation (MFN) tariff rate. The proposed FTA is likely to increase the shares of Indonesia and Australia in each other's trade basket at the cost of Indian exports shares in these two nations.

Table 2.1 shows India and Indonesia's top 10 export products in Australian market along with their volumes in 2016 and CAGR. Trade basket in the year 2016 shows that India's top ten export products constitutes those related to petroleum oils, jewellery, medicinal and rice. On the other hand, Indonesian exports to the Australian market are majorly of petroleum oils, wood, toilet & sanitation and parts of machinery.

Though, at six digit disaggregation, there is no product in which India and Indonesia compete with each other in terms of their exports to the Australian market, but at the two digit level of disaggregation (HS-2) under Chapter 27, there are two products (petroleum oils & oils obtained from bituminous minerals crude and other than crude), in which, India and Indonesia might compete while exporting to Australia. Both of them are having high share in the exports of India and Indonesia to Australia.

Table 2.1: India and Indonesia's Top Ten Exports to Australia

Product Code	Product Description	India's Exports to Australia		Indonesia's Exports to Australia	
		Export Value in 2016 (US$ mn)	CAGR (2012-16)	Export Value in 2016 (US$ mn)	CAGR (2012-16)
271019	Petroleum oils & oils obtained from bituminous minerals (other than crude)	496.54 (16.84)*	27.44		
271011	Light petroleum oils & preparations	265.72 (9.01)	66.91		
300490	Medicaments consisting of mixed/unmixed	172.70 (5.86)	15.14		
710239	Diamonds, non-industrial other than unworked/simply sawn/cleaved/bruted	159.33 (5.40)	1.31		
711319	Articles of jewellery & parts thereof , of other precious metal	105.85 (3.59)	-3.19		
870322	Vehicles principally designed for the transport of persons	38.45 (1.30)	-25.49		
100630	Semi-milled/wholly milled rice, whether/not polished/glazed	35.34 (1.20)	6.07		
630260	Toilet linen & kitchen linen, of terry towelling/similar terry fabrics	33.40 (1.13)	9.13		
300410	Medicaments containing penicillins/derivatives thereof	22.15 (0.75)	21.73		
380893	Herbicides, anti-sprounting products & plant-growth regulators	21.59 (0.73)	16.35		
270900	Petroleum oils & oils obt. from bituminous mins., crude			534.30 (16.70)	-23.29
730890	Structures & parts of structures			435.53 (13.61)	70.76
440929	Wood (including strips&friezes for parquet flooring, not assembled)			99.46 (3.11)	-5.96
401110	New pneumatic tyres, of rubber			54.25 (1.70)	-15.76
480300	Toilet/facial tissue stock, towel/napkin stock & similar paper of a kind used for household/sanitary purposes			47.43 (1.48)	12.86
310210	Urea, whether/not in aqueous solution			46.89 (1.47)	-15.61
730799	Tube/pipe fittings of iron/steel			43.90 (1.37)	191.67
847490	Parts of the machinery of 84.74			43.57 (1.36)	7.94
731589	Chain, of iron/steel, n.e.s. in 73.15			42.00 (1.31)	362.38
852872	Other colour reception apparatus for television			40.69 (1.27)	-17.96
Sub-Total**		**1351.06 (45.82)**		**1388.02 (43.39)**	
Total Export Value in 2016		**2948.41**		**3199.01**	

Notes: * Values in the parenthesis are export share of the particular product in total exports; ** Summation of the top ten exported products
Source: WITS database

Table 2.2 shows the exports top ten products of India and Australia to the Indonesian market. Australia's export of these top ten products (US$ 2948.41 mn) are almost double than the export of India's top ten products to Australia (US$ 1125.18 mn). But the total exports of both of them to Australia are not very much different: US$ 3131.50 mn and US$ 3975.95 mn for India and Indonesia, respectively.

Table 2.2: India and Australia's Top 10 Exports to Indonesia

Product Code	Product Description	India's Export to Indonesia		Australia's Export to Indonesia	
		Export Value in 2016 (US$ mn)	CAGR (2012-16)	Export Value in 2016 (US$ mn)	CAGR (2012-16)
120220	Ground-nuts, not roasted/othw	218.34 (6.97)*	1.21		
20230	Meat of bovine animals, frozen, boneless	203.39 (6.50)	201.07	208.18 (5.24)	24.65
890590	Light-vessels, fire-floats, floating cranes & other vessels	173.89 (5.55)	44.24		
890400	Tugs & pusher craft	112.17 (3.58)	20.17		
290243	p-Xylene	107.97 (3.45)	-31.33		
870899	Other parts & accessories for the motor vehicles of	79.66 (2.54)	-7.45		
520100	Cotton, not carded/combed	73.14 (2.34)	14.32	129.05 (3.25)	-15.11
271011	Light petroleum oils & preparations	61.23 (1.96)	-54.14		
90420	Fruits of the genera Capsicum/Pimenta, dried/crushed/ground	48.69 (1.55)	28.07		
721913	Flat-rolled products of stainless steel, of a width of 600mm/more,	46.71 (1.49)	-5.43		
100190	Wheat other than durum wheat; meslin			732.09 (18.41)	-14.50
10290	Live bovine animals other than pure-bred breeding animals			511.14 (12.86)	28.12
270900	Petroleum oils & oils obt. from bituminous mins			457.56 (11.51)	16.12
270112	Bituminous coal, whether/not pulverised			217.74 (5.48)	771.03
40210	Wood charcoal of bamboo			77.53 (1.95)	2.43
790111	Zinc, not alloyed, unwrought, containing by weight 99.99			54.83 (1.38)	21.23
230110	Flours, meals & pellets of meat/meat offal;			53.28 (1.34)	-14.13
760110	Aluminium, not alloyed, unwrought			50.36 (1.27)	-30.44
Sub-Total**		**1125.18 (35.39)**		**2491.75 (62.67)**	
Total Export Value in 2016		**3131.50**		**3975.95**	

Notes: * Values in the parenthesis are export share of the particular product in total exports; ** Summation of the top ten exported products
Source: WITS database

Among their exports of top ten products to the Indonesian market, India and Australia are competing in two products: 'Meat of bovine animals, frozen and boneless' and 'Cotton, not carded/combed'. The exports of 'Meat of bovine animals, frozen and boneless' of India and Australia to Indonesia are almost same but the CAGR of these exports of India is very high (201.07%) as compared to Australia (24.65%). However, the FTA between Indonesia and Australia will provide greater access to Australia in the Indonesian market and, hence, may divert the Indonesian trade from India to Australia.

The second competitive product for India and Australia's exports to Indonesia is 'Cotton, not carded/combed', for which Australian exports are relatively higher than the Indian exports to Indonesia but its CAGR is declining (-15.11%) over time. The closeness of Indonesia with Australia can provide extra edge to Australia for its exports to Indonesia and there are high chances that the preference to Australia can grab away India's market share in the Indonesian market.

India has been facing competition and has similarity in exports in these products. It is clear that India will be highly affected after successful implementation of this proposed FTA. Overall degree of competition and to what extent there is similarity in export baskets of both countries (India and Australia) to Indonesia will depend on the value of Relative Export Competitive Pressure Index (RECPI) and Finger-Kreinin Index (FKI), respectively.

The FKI of India and Indonesia in the Australian market is low, which shows low level of similarity in the exports from these two countries to Australia (Table 2.3A). At the same time, the similarity in exported products of India and Australia to the Indonesian market is also low (Table 2.3B)

The evidence given by RECPI shows that competitive pressure to India from Indonesia is almost nil in their exports to Australia but there is some degree of competition between India and Australia when exporting to Indonesia. (Table 2.3C & D)

Table: 2.3: FKI and RECPI among India, Australia and Indonesia (2013-16)

A. India's FKI with Australia

Competitor	2013	2014	2015	2016
Indonesia	0.11	0.11	0.11	0.13

B. India's FKI with Indonesia

Competitor	2013	2014	2015	2016
Australia	0.10	0.11	0.11	0.16

C. India's RECPI with Australia

Competitor	2013	2014	2015	2016
Indonesia	0.06	0.08	0.02	0.03

D. India's RECPI with Indonesia

Competitor	2013	2014	2015	2016
Australia	0.04	0.14	0.04	0.31

Source: TradeSift calculations using data from Comtrade Via WITS 6-Digit

Food for Thought

The trade pact between Indonesia and Australia (IA-CEPA) will undoubtedly raise the trade volume between these two and can adversely affect the future trade of India with these two countries. As discussed, India will not be affected much in regard to its exports to Australia because there is no common exported product between India and Indonesia's exports to Australia and, hence, less pressure on India. But Australia is a larger player in the Indonesian market as compared to India and, also, there are two common products (as highlighted above), which are expected to put some pressure on India's future exports to Indonesia.

3. EU-Japan trade pact: A strategic partnership

The 18th round of negotiations on Free Trade Agreement between the EU and Japan took place in Tokyo in April 2017. Both sides work to conclude the negotiations in 2017. The core of the agreement aims to increase the flow of Japanese cars to Europe and of European food to Japan. The Europeans are expected to scrap a 10 percent tariff on passenger cars made in Japan, over a period of seven years. Duties would come down more rapidly for some car components. The Japanese automotive giants Toyota and Honda have claimed a smaller market share in Europe than in other major markets like the United States. The Japanese, in return, are expected to lower duties on European cheeses like Gouda from the Netherlands, while retaining their unusually complex regulations on dairy products.

(https://www.nytimes.com/2017/07/06/business/economy/japan-eu-trade-agreement.html)

CUTS Comments

India and Japan have a comprehensive economic cooperation agreement. They are expected to get further connected through the Regional Comprehensive Economic Partnership Agreement (RCEP) of Asia and the Pacific. Furthermore, there are a number of memorandum of understanding that have been signed between India and Japan on investment, skills, connectivity, science and technology, among others. Japanese capital and innovation is flowing remarkably in India. The recently conceived bullet train project in India, from Ahmedabad to Mumbai, is one such example.

The ease of trade terms between EU and Japan through this FTA is expected to hit positively the market shares of both the countries in each other's market. From an Indian perspective, EU and Japan are significant trading partners.

From Table 3.1, it is clear that petroleum oils and their products, gems and jewellery, medicine and medical equipment, vehicles and their parts, fabrics, parts of airplane and helicopter, shoes and leather products, fishes and their products are major exporting items of India to the EU market. On the other hand, Japan's exports to the EU market are more of vehicles and their parts and accessories. Reduction in trade hurdles will provide greater access to Japan in the European market, which will Japan to expand its motor vehicles business.

India and Japan are competing in vehicles principally designed for the transport of persons with a cylinder capacity (870322) in the European market. Japanese exports are already larger (US$ 1230.24 mn) in the European market in relation to that of India (US$ 938.27 mn) with a high CAGR (21%) over the last five years. Japan is already investing a lot in the R&D and it has been a key player in the export of motor vehicles. This trade pact between the EU and Japan will provide extra edge to Japan and is expected to create more hurdles for the exports of Indian motor vehicles to the EU market.

Table 3.1: India and Japan's Top Ten Exports to the European Union

Product Code	Product Description	India's Export to the EU		Japan's Export to the EU	
		Export Value in 2016 (US$ mn)	CAGR (2012-16)	Export Value in 2016 (US$ mn)	CAGR (2012-16)
271019	Petroleum oils & oils obtained from bituminous minerals (other than crude)	2165.1 (4.74)*	-26.85		
710239	Diamonds, non-industrial other than unworked/simply sawn/cleaved/bruted	1949.61 (4.27)	-3.13		
300490	Medicaments consisting of mixed/unmixed products for therapeutic/prophylactic uses	1170.01 (2.56)	4.95		
870322	Vehicles principally designed for the transport of persons, a cylinder capacity	938.27 (2.02)	2.20	1230.24	21.32
610910	T-shirts, singlets & other vests, knitted/crocheted, of cotton	709.71 (1.56)	0.07		
710231	Diamonds, non-industrial, unworked/simply sawn/cleaved/bruted	687.5 (1.51)	7.20		
880330	Parts of aeroplanes/helicopters, other than propellers, rotors, under-carriages & parts thereof	677.95 (1.49)	7.10		
640391	Other footwear without outer soles of leather, covering the ankle.	590.49 (1.29)	19.96		
030613	Shrimps & prawns, whether/not in shell, frozen	562.82 (1.23)	6.49		
870899	Other parts & accessories for the motor vehicles of 87.01-87.05	560.26 (1.23)	-4.07		
870323	Vehicles principally designed for the transport of persons, a cylinder capacity >1500cc but not >3000cc			5245.41 (7.11)	11.65
999999	Commodities not specified according to kind			4406.53 (5.98)	-3.60
870332	Vehicles principally designed for the transport of persons), a cylinder capacity >1500cc but not >2500cc			3444.74 (4.67)	6.43
870840	Gear boxes & parts thereof, of the motor vehicles of headings 87.01 to 87.05.			2873.91 (3.9)	-0.80
710812	Gold (incl. gold plated with platinum), in unwrought forms (excl. powder)			2578.74 (3.5)	26.26
844399	Other parts & accessories for printing machinery excl. 8443.91			2058.06 (2.79)	-10.59
842952	Self-propelled mechanical shovels & excavators with a 360? revolving superstructure			1360.3 (1.84)	-0.25
841191	Parts of the turbo-jets/turbo-propellers of 8411.11-8411.22			1011.67 (1.37)	4.67
902790	Microtomes; parts & accessories of instr. & apparatus of 90.27			889.95 (1.21)	5.06
Sub-Total**		**10011.72 (21.94)**		**25099.56 (34.04)**	
Total Export Value in 2016		**45629.44**		**73736.84**	

Notes: * Values in the parenthesis are export share of the particular product in total exports; ** Summation of the top ten exported products
Source: WITS database

Table 3.2 shows that light petroleum oils & preparations, shrimps & prawns, whether/not in shell, frozen, diamonds, non-industrial other than unworked/simply sawn/cleaved/bruted, petroleum oils & oils obtained from bituminous minerals (other than crude), ferro-silico-manganese, in granular/powder form are major exported items of India to Japan.

Table 3.2: India and European Union's Top Ten Exports to Japan

Product Code	Product Description	India's Export to Japan		EU's Export to Japan	
		Export Value in 2016 (US$ mn)	CAGR (2012-16)	Export Value in 2016 (US$ mn)	CAGR (2012-16)
271011	Light petroleum oils & preparations	553.89 (14.47)*	-30.08		
030613	Shrimps & prawns, whether/not in shell, frozen	307.74 (8.04)	5.18		
710239	Diamonds, non-industrial other than unworked/simply sawn/cleaved/bruted	240.87 (6.29)	-6.80		
271019	Petroleum oils & oils obtained from bituminous minerals (other than crude)	95.69 (2.50)	-32.60		
720230	Ferro-silico-manganese, in granular/powder form	78.78 (2.06)	-14.56		
870899	Other parts & accessories for the motor vehicles of 87.01-87.05, exclud. 8708.91/92/93/94/95.	73.38 (1.92)	0.85		
030499	Fish fillets & other fish meat (excl. of 0304.11-0304.29, whether/not minced),n.e.s.	59.64 (1.56)	-0.67		
380893	Herbicides, anti-sprounting products & plant-growth regulators	58.89 (1.54)	75.23		
080132	Cashew nuts, shelled	54.63 (1.43)	2.27		
760110	Aluminium, not alloyed, unwrought	51.40 (1.34)	308.94		
300490	Medicaments consisting of mixed/unmixed products for therapeutic/prophylactic uses			5043.49 (8.18)	-3.09
870323	Vehicles principally designed for the transport of persons, cylinder capacity >1500cc but not >3000cc			3493.39 (5.67)	-7.88
870324	Vehicles principally designed for the transport of persons, cylinder capacity >3000cc			1478.38 (2.40)	-7.09
870322	Vehicles principally designed for the transport of persons, cylinder capacity >1000cc but not >1500cc			1405.15 (2.28)	10.26
020329	Meat of swine (excl. carcasses/half-carcasses/hams/shoulders & cuts thereof), froxen			1274.14 (2.07)	4.79
300210	Antisera & other blood fractions & modified immunological products			1232.53 (2.00)	20.13
870332	Vehicles principally designed for the transport of persons cylinder capacity >1500cc but not >2500cc			1224.47 (1.99)	50.45
999999	Commodities not specified according to kind			1140.58 (1.85)	-12.87
300439	Medicaments containing hormones/other products of 29.37 but not containing antibiotics			827.06 (1.34)	2.94
840820	Compression-ignition internal combustion piston engines (diesel/semi-diesel engines			741.71 (1.20)	13.38
Sub-Total**		1574.90 (41.14)		17860.90 (28.98)	
Total Export Value in 2016		3827.28		61632.61	

Notes: * Values in the parenthesis are export share of the particular product in total exports; ** Summation of the top ten exported products
Source: WITS database

Among others, major exported products from EU to Japan are medicaments consisting of mixed/unmixed products for therapeutic/prophylactic uses, vehicles principally designed for the transport of persons with cylinder capacity >1500cc but not >3000cc, vehicles principally designed for the transport of persons with cylinder capacity >1500cc but not >3000cc, vehicles principally designed for the transport of persons with cylinder capacity >3000cc and vehicles principally designed for the transport of persons with cylinder capacity >1000cc but not >1500cc, among others.

Table 3.2 shows the top ten exported products of India and EU to Japan but there is no commonality. Therefore, this trade pact between the EU and Japan will have very little effect on India's exports to Japan if we only see the list of top ten exported products.

To test the level of similarity and level of competition pressure among India, EU and Japan, FKI and RECPI have been calculated and the same is shown in Table 3.3. The level of similarity among the Indian and Japanese exports in the EU market (Table 3.3A) is very low and stagnant. Similar is the case with India and EU's exports in the Japanese market as shown by FKI (Table 3.3B).

Table: 3.3: FKI and RECPI among India, EU and Japan (2013-16)

A. India's FKI with EU

Competitor	2013	2014	2015	2016
Japan	0.17	0.17	0.18	0.18

B. India's FKI with Japan

Competitor	2013	2014	2015	2016
EU	0.15	0.16	0.19	0.20

C. India's RECPI with EU

Competitor	2013	2014	2015	2016
Japan	0.10	0.07	0.20	0.21

D. India's RECPI with Japan

Competitor	2013	2014	2015	2016
EU	0.20	0.22	0.64	0.76

Source: TradeSift calculations using data from Comtrade Via WITS 6-Digit

Table 3.3C depicts that the competition on India from Japan in the EU market was very low in 2013 but over time it is rising marginally. The competition on India in the Japanese market from EU was low in 2013 and it is rising over time.

Food for Thought

The EU-Japan ties are getting closer to set a platform, which is expected to take their trade to new heights by providing greater access to each other's markets. For India, both are significant trading partners and, therefore, their closeness can harm the current level of India's trade with the EU and Japan. Japan can capture the share of Indian motor vehicles in the European market because it may get greater market access via lower trade barriers and is also technologically advanced in the production of motor vehicles in comparison to India. Hence, India should focus more on getting higher market access in the EU market by concluding its on-going negotiation of a bilateral trade and investment agreement with the EU. Additionally, as a result of this FTA, the EU is expected to face less hurdles in the Japanese market. While there may not be much harm to India's trade with Japan, India should keep expected trade diversion from its share in the Japanese market while reviewing its FTA with Japan and should also keep such a possibility in mind while finalising the RCEP agreement.