

**CUTS Dossier on Preferential Trade Agreements**  
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### **1. Japan, EU reaffirm goal to reach trade deal by year-end**

Japanese Economy Minister Hiroshige Seko and European Commission Vice President Jyrki Katainen met at a state guesthouse in Tokyo. Japanese Prime Minister Shinzo Abe was away for the United Nations General Assembly and unable to attend, but the Japanese government signaled its commitment to the economic partnership agreement by receiving Katainen, who is also the former prime minister of Finland, as a state guest. "Japan is strongly prepared to conclude negotiations by the end of this year," Seko said. Katainen responded that the proposed agreement would play a key role in modernizing the European economy...

*(<http://asia.nikkei.com/Politics-Economy/International-Relations/Japan-EU-reaffirm-goal-to-reach-trade-deal-by-year-end>)*

### **CUTS Comments**

The new trade deal is likely to have some impacts on the export basket of India. Our research based on ITC database and TradeSift software shows that the presence of India and Japan in EU's market and that of India and EU in Japan's market are competing on relatively moderate numbers of products.

Trade statistics reveal that in 2015 the total value of India's export to Japan was approximately US\$ 4.5 billion. In the same year, total value of the EU's export to Japan was approximately US\$ 63.8 billion. Thus, in terms of the value of total exports, EU was enjoying a significant advantage over India in Japan's market.

As shown in Table 1.1, India and EU are competing in four product segments (among their top 10 exports to Japan) such as organic chemicals; machinery, mechanical appliances, nuclear reactors, boilers; parts thereof; vehicles other than railway or tramway rolling stock, and parts and accessories thereof; and electrical machinery and equipment and parts thereof. Currently, EU is better positioned than India in these products in terms of their aggregate value of exports and as a result of this FTA it may further affect India's export interest in Japan's market.

On the other hand, there are products like mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ; fish and crustaceans, molluscs, etc.; ships, boats and floating structures; natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad; iron and steel; and articles of apparel and clothing accessories, not knitted or crocheted, where, as compared to EU, India is likely to remain a leading player in Japan's markets.

**Table 1.1**

India's Exports to Japan (Exports in 2015: US\$4529.72mn)		EU's Exports to Japan (Exports in 2015: US\$ 63758.3mn)		
Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)
1017.5	-15	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral ...	...	...
387.4	2	Fish and crustaceans, molluscs, etc.	...	...
366.3	10	Organic chemicals	2712.0	-9.4
360.0	13	Ships, boats and floating structures	...	...
247.6	-8	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	...	...
215.0	17	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	8518.6	0.1
170.7	-5	Iron and steel	...	...
151.2	-4	Articles of apparel and clothing accessories, not knitted or crocheted	...	...
143.4	27	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	9261.5	-0.2
105.9	8	Electrical machinery and equipment and parts thereof	3462.8	-1.4
		Pharmaceutical products	9878.0	5.3
		Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipments	5386.2	-2.7
		Works of art, collectors' pieces and antiques	1372.6	368.8
		Beverages, spirits and vinegar	1307.5	-2.7
		Meat and edible meat offal	1266.2	1.9
		Articles of leather; saddlery and harness; travel goods, handbags and similar containers and articles thereof	1250.0	-2.2
		<b>Top 10 Products (percentage of total exports)</b>	<b>44415.4 (70%)</b>	
<i>Source: International Trade Centre Database</i>				

In 2015, India's export to EU was valued at approximately US\$ 44.7 billion and Japan's export to EU 28 was approximately US\$ 66.02 billion. Following this FTA it is expected that India's export to EU may get affected in some product segments. Though Japan's export similarity and complementarity are moderate (see Table 1.3), trade diversion in favour of EU as well as Japan may not be ruled out.

In 2015, India was the 26<sup>th</sup> and 24<sup>th</sup> largest importing sources for Japan and EU, respectively. Products like pearls, precious stones, metals, coins, etc.; articles of apparel, accessories, not knit or crochet; organic chemicals; articles of apparel, accessories, knit or crochet; machinery, nuclear reactors, boilers, etc.; mineral fuels, oils, distillation products, etc.; vehicles other than railway, tramway; electrical, electronic equipment; articles of iron or steel; and footwear, gaiters and the like, parts thereof, are major export items from India to EU. If we compare the data shown in Table 1.2, India and Japan compete with each other in five of those products.

Additionally, if we look at export growth trend of these products during 2011 to 2015, it indicates that in most of these items 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 to maintain and increase its trade competitiveness in these products.

**Table 1.2**

India's Exports to EU (Exports in 2015: US\$44706 mn)		Japan's Exports to EU (Exports in 2015: US\$ 66022.6mn)		
Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)
3263	-8	Pearls, precious stones, metals, coins, etc.	...	...
3230	-3.7	Articles of apparel, accessories, not knit or crochet	...	...
3079	2	Organic chemicals	1838.6	-7.4
3029	3.1	Articles of apparel, accessories, knit or crochet	...	...
2842	3.4	Machinery, nuclear reactors, boilers, etc.	15890.1	-8.8
2470	-18.6	Mineral fuels, oils, distillation products, etc.	...	...
2144	-0.9	Vehicles other than railway, tramway	15542.4	-5.0
1854	-10.1	Electrical, electronic equipment	9568.5	-9.1
1649	0.1	Articles of iron or steel	826.8	-4.3
1579	-0.9	Footwear, gaiters and the like, parts thereof	...	...
		Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipments	5313.1	-7.9
		Commodities not elsewhere specified	4545.9	-1.4
		Plastics and articles thereof	1616.5	-6.8
		Rubber and articles thereof	1297.3	-11.0
		Miscellaneous chemical products	911.4	-7.0
25138 (56%)		<b>Top 10 Products (percentage of total exports)</b>	57350.7 (87%)	

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 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.

The FKI in Table 1.3A varies between 0.14 and 0.17 and shows some increasing tendency that indicates some similarity of export of India and EU to Japan. This means that at the aggregate level and to some extent India and EU were competing in Japan's market. On the other hand, the level of export similarity between India and Japan in EU's market was also low and stable (Table 1.3B). That means, the competition between India and Japan in EU's market were more than that of India and EU in Japan's market.

Similar to the results of the Finger-Kreinin Index, Table 1.3C shows that during 2011 to 2015 the RECPI of India with Japan was moderate but increasing, indicating moderate competition between India and EU in Japan's market. On the other hand, India's RECPI with Japan was low and stable, indicating low level of competition between India and Japan in EU's market (Table 1.3D).

**Table 1.3: FKI and RECPI among India-Japan-EU 28 (2013-15)**

A. India's FKI with Japan				B. India's FKI with EU 28			
Competitor	2013	2014	2015	Competitor	2013	2014	2015
EU 28	0.14	0.14	0.17	Japan	0.17	0.17	0.18
C. India's RECPI with Japan				D. India's RECPI with EU 28			
Competitor	2013	2014	2015	Competitor	2013	2014	2015
EU 28	0.17	0.17	0.52	Japan	0.08	0.06	0.12

*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 European and Japanese products will receive reciprocal preferential treatment in their respective markets. India does not have a bilateral trade agreement with EU but have an India-Japan Comprehensive Economic Partnership Agreement. In the wake of expected changes in trade in goods, services as well as investment relationship among India, EU and Japan, India should put more emphasis on fast-tracking its negotiation with EU and at the same time strengthen its supply chain to gain more access to Japanese as well as European markets. The threat factor is: India may lose its market share in favour of EU as well as Japan in some product segments.*

## **2. ASEAN, EAEU favor setting up free trade zone**

Countries members of the Eurasian Economic Union (EAEU) and the Association of the South-East Asian Nations (ASEAN) want to create a free trade zone. It is the study of a possibility to create a free trade zone between the Eurasian Economic Union and ASEAN. The Russia-ASEAN summit in Sochi expressed a political will to start the process. Today, we have agreed - at the ministerial level - to begin practical work... He added that the EAEU and ASEAN would create a research group...

*(<http://tass.ru/en/economy/892602>)*

## **CUTS Comments**

The new trade agreement between ASEAN and EAEU is likely to have some impact on India's export. Currently, India and ASEAN and India and EAEU are in competition (see Table 2.1 &2.2).

Trade statistics reveal that in 2015 the total value of India's exports to ASEAN was approximately US\$ 26.4 billion, whereas that of the EAEU to ASEAN was approximately US\$ 6 billion. This shows that at the moment the India is better positioned than EAEU in ASEAN markets.

As shown in Table 2.1, India and the EAEU are competing in some product segments (in their top 10 exports) such as mineral fuels, mineral oils and products of their distillation; ships, boats and floating structures; machinery, mechanical appliances, nuclear reactors, boilers; and electrical machinery and equipment and parts thereof. However, most of these competing product segments, the annual export growth of EAEU during 2011-2015 was better and therefore, the new trade equation may change the growth momentum in favour of EAEU and further strengthen its position in these product segments.

**Table 2.1**

India's Exports to ASEAN (Exports in 2015: US\$26428.1 mn)		EAEU's Exports to ASEAN (Exports in 2015: US\$ 5998.8 mn)		
Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)
4069.8	-16.2	Mineral fuels, mineral oils and products of their distillation	3397.5	-7.7
2740.6	31.2	Meat and edible meat offal	...	...
1734.8	-14.7	Ships, boats and floating structures	225.5	-7.7
1541.6	4.7	Machinery, mechanical appliances, nuclear reactors, boilers	100.9	-10.7
1145.1	13.9	Fish and crustaceans, molluscs, etc.	...	...
1132.8	-7.9	Organic chemicals	...	...
1084.6	2.8	Vehicles other than railway or tramway rolling stock	...	...
1061.8	57.1	Commodities not elsewhere specified	...	...
1019.2	-4.7	Natural or cultured pearls, precious or semi-precious stones	...	...
836.9	-4.6	Electrical machinery and equipment and parts	199.2	5.9
		Fertilisers	1024.0	-3.1
		Iron and steel	164.4	-19.4
		Arms and ammunition; parts and accessories thereof	153.0	-5.5
		Paper and paperboard; articles of paper pulp, of paper or of paperboard	79.4	1.4
		Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical equipments	71.4	-4.0
		Salt; sulphur; earths and stone; plastering materials, lime and cement	66.3	12.4
16367.3 (62%)	<b>Top 10 Products (percentage of total exports)</b>		5481.6.7 (91%)	

Source: International Trade Centre Database

At the same time, in 2015, India's export to EAEU was valued at approximately US\$ 1.9 billion, whereas that of ASEAN to EAEU was approximately US\$ 5.3 billion. It is expected that India's export interest may get further affected as a result of ASEAN-EAEU trade agreement.

In 2015, India was the 11th largest source of import for ASEAN and 20<sup>th</sup> largest source of import for EAEU. Products like pharmaceutical products; machinery, nuclear reactors, boilers, etc.; coffee, tea, mate and spices; aircraft, spacecraft, and parts thereof; articles of apparel, accessories, knit or crochet; miscellaneous edible preparations; electrical, electronic equipment; articles of apparel, accessories, not knit or crochet; organic chemicals; and vehicles other than railway, tramway are major exports from India to EAEU.

If we compare the data from Table 2.2, India and ASEAN largely compete with each other in products such as machinery, nuclear reactors, boilers, etc.; coffee, tea, mate and spices; articles of apparel, accessories, knit or crochet; electrical, electronic equipment; and articles of apparel, accessories, not knit or crochet.

It was also observed that in products like pharmaceutical products; aircraft, spacecraft, and parts thereof; miscellaneous edible preparations; and organic chemicals, India has an edge over ASEAN. Because of this advantage, it has the potential to improve its overall position in EAEU market.

Table 2.2				
India's Exports to EAEU (Exports in 2015: US\$1881.4 mn)		ASEAN's Exports to EAEU (Exports in 2015: US\$ 5279.6 mn)		
Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)
425.0	-7.2	Pharmaceutical products	...	...
177.0	8.2	Machinery, nuclear reactors, boilers, etc.	686.7	24.1
149.0	-6.6	Coffee, tea, mate and spices	234.9	12.0
95.0	-13.5	Aircraft, spacecraft, and parts thereof	...	...
76.0	6.8	Articles of apparel, accessories, knit or crochet	116.9	4.6
60.0	-6.8	Miscellaneous edible preparations	...	...
59.0	-19.0	Electrical, electronic equipment	1492.7	11.4
58.0	10.9	Articles of apparel, accessories, not knit or crochet	183.3	9.3
55.0	3.7	Organic chemicals	...	...
54.0	4.4	Vehicles other than railway, tramway	195.3	-13.4
		Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	575.5	-2.5
		Footwear, gaiters and the like; parts of such articles	283.5	23.1
		Rubber and articles thereof	178.4	-10.8
		Plastics and articles thereof	147.5	-3.4
1207.5 (64%)		<b>Top 10 Products (percentage of total exports)</b>	4094.8 (78%)	

Source: International Trade Centre Database

The FKI in Table 2.3A varies between 0.07 and 0.26, indicating moderate similarity of exports of India and EAEU to ASEAN than that of India and ASEAN to EAEU market. This means that at the aggregate level similarity of India and EAEU's exports to ASEAN is some extent more similar than that of India and ASEAN's in EAEU markets.

Similar to the results of the Finger-Kreinin Index, Table 2.3C shows that during 2011-2015 the RECPI of India with ASEAN were moderate indicating that the degree of competition between India and EAEU in ASEAN's market was moderate, it means competition is moderate due to varied level of value added products are traded by India, EAEU and ASEAN with each other.

**Table 2.3: FKI and RECPI among India-ASEAN-EAEU (2013-15)**

A. India's FKI with ASEAN				B. India's FKI with EAEU			
Competitor	2013	2014	2015	Competitor	2013	2014	2015
EAEU	0.17	0.26	0.17	ASEAN	0.19	0.14	0.13

  

C. India's RECPI with ASEAN				D. India's RECPI with EAEU			
Competitor	2013	2014	2015	Competitor	2013	2014	2015
EAEU	0.07	0.45	0.20	ASEAN	0.38	0.14	0.02

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

### **Food for Thought**

*India does not have a bilateral trade agreement with EAEU and is connected with ASEAN under a Free Trade Agreement. Therefore, India should put more emphasis on negotiating an FTA with EAEU and at the same time undertake additional trade facilitation measures to improve its supply chain as well as trade competitiveness to face competition from ASEAN in EAEU markets.*

### **3. Korea-Colombia free trade pact to go into effect this week**

The South Korea-Colombia free trade agreement (FTA) will go into effect from July 2016, immediately eliminating tariffs on 4,390 South Korean export products to the South American country, the trade ministry said. Trade volume between the two countries last year reached US\$1.45 billion, with South Korea exporting \$1.13 billion's worth for a \$800 million trade surplus, according to the Ministry of Trade, Industry and Energy on Thursday. Colombia, with the third-largest population in South America at 47.6 million people, is regarded as one of the fast-expanding markets in the region with economic growth higher than in other neighbors. In addition to tariff removal, the bilateral FTA would lower the tariffs on 2,797 products South Korea exports to Colombia. Within 10 years, South Korea will do away with tariffs for 96.1 percent of products from the South American country, and Colombia on 96.7 percent of imported products from South Korea...

(<http://english.yonhapnews.co.kr/news/2016/07/14/0200000000AEN20160714003700320.html>)

### **CUTS Comments**

The FTA between South Korea and Colombia is likely to have some impact on India's export basket. Though at present competition is moderate, the situation may further change in favour of Korea and Colombia in the long-run.

Trade statistics reveal that in 2015 the total value of India's export to Korea was approximately US\$ 3 billion. In the same year, the value of Colombia's export to Korea was approximately US\$ 229 million.

As shown in Table 3.1, India and Colombia are competing in three product segments (in their top 10 exports) such as mineral fuels, mineral oils and products of their distillation; aluminum and articles thereof; and iron and steel. In the competing product segments the annual growth of export of India during 2011-2015 was so good than that of Colombia.

However, there are products like organic chemicals; cotton; prepared animal fodder; machinery, nuclear reactors, boilers, etc.; zinc and articles thereof; optical, photographic, cinematographic and etc.; and nickel and articles thereof, where India is likely to remain a leading player as compared to Colombia.

Table 3.1				
India's Exports to Korea (Exports in 2015: US\$ 3009.6mn)		Colombia's Exports to Korea (Exports in 2015: US\$ 229.4 mn)		
Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)
546.2	-19.0	Mineral fuels, mineral oils and products of their distillation	47.8	5.0
516.6	33.0	Aluminum and articles thereof	6.1	-9.0
318.0	-4.0	Organic chemicals	...	...
285.6	-9.0	Iron and steel	39.5	-2.0
212.8	-2.0	Cotton	...	...
164.4	6.0	Prepared animal fodder	...	...
134.4	10.0	Machinery, nuclear reactors, boilers and etc.	...	...
116.5	-6.0	Zinc and articles thereof	...	...
92.0	67.0	Optical, photographic, cinematographic and etc.	...	...
89.4	155.0	Nickel and articles thereof	...	...
		Coffee, tea, maté and spices	69.7	-3.0
		Copper and articles thereof	42.0	2.0
		Miscellaneous chemical products	9.4	18.0
		Miscellaneous edible preparations	4.1	-8.0
		Cut flowers and ornamental foliage	3.0	22.0
		Sugars and sugar confectionery	2.1	8.0
		Raw hides and skins (other than furskins) and leather	1.4	-9.0
2475.9 (69%)		<b>Top 10 Products (percentage of total exports)</b>	225.2 (98%)	

Source: International Trade Centre Database

At the same time, when we talk about export from India to Colombia, in 2015, it was valued at approximately US\$ 963.5 million, whereas that of Korea to Colombia was approximately US\$ 1.1 billion. It is expected that Colombia's import from India may get further get affected in the short run (See Table 3.2).

India is the 23rd and 8<sup>th</sup> largest import source for Korea and Colombia respectively. As shown in Table 3.2, India and Iran are competing in seven product segments (in their top 10 exports) such as vehicles other than railway or tramway rolling stock; organic chemicals; pharmaceutical products; miscellaneous chemical products; plastics and articles thereof; iron and steel; and machinery, nuclear reactors, boilers; parts thereof. Currently, India is better positioned than Korea in these product segments.

It was also observed that in products like cotton; aluminum and articles thereof; and man-made staple fibres, India has an edge over Korea. Because of this advantage, it has the potential to improve its overall position in Colombia's markets.

Table 3.2				
India's Exports to Colombia (Exports in 2015: US\$ 963.5 mn)		Korea's Exports to Colombia (Exports in 2015: US\$ 1129.1 mn)		
Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Average Annual Growth (2011-2015, %)
416.3	6.0	Vehicles other than railway or tramway rolling stock	473.2	-14.0
91.0	0.0	Cotton	...	...
61.2	4.0	Organic chemicals	41.3	1.0
45.6	9.0	Pharmaceutical products	12.9	9.0
38.1	-3.0	Miscellaneous chemical products	34.5	13.0
32.7	119.0	Aluminum and articles thereof	...	...
29.1	-12.0	Man-made staple fibres	...	...
28.7	9.0	Plastics and articles thereof	128.6	4.0
27.8	-2.0	Iron and steel	98.8	11.0
23.6	12.0	Machinery, nuclear reactors, boilers; parts thereof	124.3	-15.0
		Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television	64.1	14.0
		Rubber and articles thereof	50.2	7.0
		Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical	20.5	10.0
794.1 (82%)		<b>Top 10 Products (percentage of total exports)</b>	1048.6 (93%)	

Source: International Trade Centre Database

There was low similarity of export from India and Colombia to Korea, however there was moderate similarity of India's export to Colombia. The FKI in Table 3.3B varied between 0.17 and 0.18. This means at the aggregate level India and Korea's exports are some extent similar and moderate. On the other hand, the level of export similarity between India and Colombia in Korea's market is low and stable.

Furthermore, the RECPIs between India and Colombia and that between India and Korea indicate that export competitiveness were moderate for India and Korea in Colombia's market (see Table 3.3D).

Table 3.3: FKI and RECPI among India-Korea-Colombia (2013-15)							
A. India's FKI with Korea				B. India's FKI with Colombia			
Competitor	2013	2014	2015	Competitor	2013	2014	2015
Colombia	0.01	0.01	0.01	Korea	0.17	0.18	0.18
C. India's RECPI with Korea				D. India's RECPI with Colombia			
Competitor	2013	2014	2015	Competitor	2013	2014	2015
Colombia	0.00	0.00	0.00	Korea	0.09	0.15	0.14

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, Korea and Colombia, a more positive approach is needed for India to explore these markets. As a result of this FTA, a wide range of Korean and Colombian 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, Korea and Colombia, India should start exploring better market access opportunities in Colombia.*