

CUTS Dossier on Preferential Trade Agreements
April – June 2020
(Volume XIV, No. 2)

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1. Bangladesh has finalised PTA with Bhutan

Bangladesh and Bhutan on 16th June, 2020 finalised the terms and conditions to sign a Preferential Trade Agreement (PTA) to increase trade between the two countries.

“As per our discussion through video conferencing, the officials of both Bangladesh and Bhutan agreed to make the PTA functional from August 30 this year,” Sharifa Khan, additional secretary to the commerce ministry of Bangladesh.

Bhutan has agreed to provide duty benefit on exports of 100 different goods including garment, agricultural processing goods and electronics goods from Bangladesh, while Bangladesh agreed to provide duty benefit to 34 Bhutanese products including fruits.

<https://www.thedailystar.net/business/news/bangladesh-bhutan-finalise-terms-deal-boost-bilateral-trade-1916057#:~:text=Bangladesh%20and%20Bhutan%20on%20Tuesday,trade%20between%20the%20two%20countries.&text=On%20the%20other%20hand%2C%20under,revenue%20from%20import%20and%20export.>

1.1 CUTS Comments

1.1 Both Bhutan and Bangladesh are neighbours and important trade partners of India. Therefore, in order to analyse the impact of this PTA on India, exports from India to each of these countries have been examined and compared with exports between Bangladesh and Bhutan.¹

a) Impact on India's exports to Bangladesh

Bangladesh is Bhutan's second largest export destination, after India. Bhutan's exports to Bangladesh were US\$ 81.07 million in the year 2019. Bangladesh is also one among India's top export destination countries. Bangladesh is the 9th largest export destination of India. India's export to Bangladesh was much larger than that of Bhutan. India's export to Bangladesh was US\$ 9210.06 million in 2019.

India's key exports to Bangladesh include: not carded or combed cotton; cotton yarn (other than sewing thread); semi or wholly milled polished rice; woven cotton fabrics; denim; motorcycles (including mopeds); wheat and meslin; onions and shallots, fresh or chilled; reactive dyes and preparations based thereon; semi-finished products of iron or non-alloy steel.

Bhutan's key exports to Bangladesh include: not carded or combed cotton; cardamoms (neither crushed nor ground); oranges (fresh or dried); limestone materials for manufacture of lime or

¹ Note: Latest available year for Bangladesh-Bhutan trade flow data is the year 2015. However, data for the year 2014 are not available. In case of Bhutan's export to Bangladesh, mirror data have been used.

cement; dolomite both calcined not calcined; pebbles (gravel, broken and crushed stone for aggregate); fresh apples; gypsum; chemical wood pulp; soda

In order to understand impact on Indian exports to Bangladesh, two types of analysis have been conducted: FKI (Finger Kreinin Index) analysis, RECPI (Relative Export Competitive Pressure Index) analysis (see **Annexure I**).

The FKI analysis measures the degree of similarity between product baskets of two source countries in export of goods to a given destination country. Table 1.A shows FKI values for India over a period of five years in Bangladesh market while Bhutan as competitor.

As indicated in Table 1.A, almost negligible similarity is found in exports baskets of India and its competitor Bhutan to Bangladesh although the degree of similarity increased in the year 2015. The major item, which is common in export baskets of both India and Bhutan to Bangladesh, is cotton.

The RECPI analysis compares the degree of competitiveness between India and its competitor country (Bhutan) in exporting common products to a particular destination market, Bangladesh in this case. Table 1.B below presents findings of RECPI analysis of India in Bangladesh market with Bhutan as competitor. It depicts that India will face insignificant export competition and pressure from Bhutan in Bangladesh's market. This seems to be a result of lack of comparable products in export baskets of both countries.

Table 1: India's FKI and RECPI with Bhutan in Bangladesh's Market

1.A. India's FKI with Bhutan in Bangladesh's Market					
Competitor	2010	2011	2012	2013	2015
Bhutan	0.0003	Nil	0.0015	nil	0.0346
1.B India's RECPI with Bhutan in Bangladesh's Market					
Competitor	2010	2011	2012	2013	2015
Bhutan	Nil	Nil	Nil	Nil	0.0013
<i>Source: TradeSift calculations using data from Comtrade via WITS 6-Digit</i>					

To better understand possible trade diversions which may be experienced by India owing to preferential treatment among the two countries, SMART analysis was conducted, findings of which are presented in Table 2 below. Given improved connectivity between Bhutan and Bangladesh through inland waterways and Bhutan's competitiveness in these products, India's exports of such products may be adversely impacted, but not significantly, except for orange.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion effect (in thousand US\$)
80510	Fresh or dried Oranges	-794.96
251710	Pebbles, gravel, broken and crushed stone for aggregate	-67.24
251810	Dolomite not calcined	-33.53
80810	Fresh Apples	-19.44
90831	Coffee, tea, maté and spices Nutmeg, mace and cardamoms	-17.94

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using TradeSift software

b) Impact on India's exports to Bhutan

Bhutan is a small market both for India and Bangladesh. Bangladesh's exports to Bhutan were just USD 4 million in 2019. India's exports to Bhutan were USD 657.33 million in this period.

Key products exported from India to Bhutan are: Non-crude petrol oil bituminous mineral; punch/notch mach for work metal; bread, pastry, cakes, and puddings; spark ignition engine; light oils and preparations; antennas/antenna reflectors and their parts; non agglomerated coal nesoi; parts of machine/mechanical appliance; structures and parts nesoi of Iron or Steel; and towers and lattice masts (steel product).

Key products exported from Bangladesh to Bhutan are: non-alcoholic beverages; men's synthetic jackets & blazers; bakery products (bread; pastry cakes, cookies and puddings); plastic tableware and kitchenware; men's cotton underpants and briefs, alu dor win and their fra and thres for doors; fruit or vegetable juice; and medicaments Nesoi (measured doses).

FKI analysis in Table 2.A shows that there is hardly any similarity in the basket of India and Bangladesh in their exports to Bhutan. The key common export item is limited to bakery products. The RECPI analysis (Table 2.B) suggests no competitiveness between India and Bangladesh for Bhutan's market and this is consistent with the result of FKI.

Table 3: India's FKI and RECPI with Bangladesh in Bhutan's Market

3.A India's FKI with Bangladesh in Bhutan's Market					
Competitor	2010	2011	2012	2013	2015
Bangladesh	nil	Nil	Nil	Nil	0.0322
3.B India's RECPI with Bangladesh in Bhutan's Market					
Competitor	2010	2011	2012	2013	2015
Bangladesh	nil	Nil	Nil	Nil	0.0004

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

However, in order to have better understanding about the possible trade diversion from India to Bangladesh in Bhutan market owing to favourable duties as a result of the bilateral PTA, SMART analysis was carried out. Findings of such analysis are presented in Table 4 below, which highlight possibility of trade diversion in exports of towers and lattice masts of iron or steel and fruit/vegetable juice.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion effect (in thousand US\$)
730820	Towers and lattice masts of iron or steel	-100.62
200989	Juice Of Single Fruit/veg	-51.20
190531	Sweet biscuits	-20.37
190590	Communion wafers, rice paper, bakers wares	-14.24
392410	Plastic table and kitchen ware	-11.43

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using TradeSift software

1.2 Food for Thought

Building up infrastructure to facilitate river-borne trade between India and Bangladesh will aid in overcoming such constraints and will also help local communities.² Scaling up of domestic treatment facilities for edible products could also help in capturing overseas markets.³ Also, India should expedite negotiations with Bangladesh on the proposed free trade agreement and discuss special tariff lines for Indian products, which are likely to be adversely impacted by other trade agreements of Bangladesh.⁴

Similarly, it has been reported that India is aiming to strengthen its trade relationship with Bhutan by improving infrastructure, connectivity,⁵ and opening up additional trade routes.⁶ It should also negotiate special tariff lines for products on which it is likely to be adversely impacted due to other trade agreements of Bhutan.

² <https://www.thethirdpole.net/2019/07/24/local-trade-between-india-and-bangladesh-in-the-meghna-basin/>

³ <https://indianexpress.com/article/cities/pune/maharashtra-improved-treatment-may-lead-to-increase-in-orange-export-from-state-6270302/>

⁴ <https://tbsnews.net/economy/india-proposes-free-trade-agreement-bangladesh#:~:text=BFTI%20have%20said,-.If%20signed%2C%20the%20bilateral%20trade%20contract%20E2%80%93%20the%20Comprehensive%20Economic%20Partnership,products%20to%20each%20other's%20market.> and <https://www.financialexpress.com/economy/neighborhood-first-india-bangladesh-to-sign-trade-agreement-soon/1828037/>

⁵ <https://timesofindia.indiatimes.com/india/amid-looming-chinese-presence-india-woos-bhutan-with-trade-and-connectivity/articleshow/77113985.cms>

⁶ <https://www.financialexpress.com/defence/india-opens-additional-trade-routes-for-the-movement-of-goods-between-india-and-bhutan/2032022/>

2. EU and Vietnam signed Free Trade Agreement

European Union and Vietnam Free Trade Agreement signed on June 30th, 2020 in Hanoi paving the way for increased trade with the EU and Vietnam.

This FTA is an ambitious pact providing almost 99 per cent of the elimination of custom duties between the EU and Vietnam. 65 per cent of duties on EU exports to Vietnam will be eliminated while the remaining will be gradually phased out over a period of 10 years. 71 percent of duties will be eliminated on Vietnam exports to the EU, with the remaining being eliminated over a period of seven years.

[\(https://www.vietnam-briefing.com/news/vietnam-eu-trade-evfta-ratified-vietnam-national-assembly.html/\)](https://www.vietnam-briefing.com/news/vietnam-eu-trade-evfta-ratified-vietnam-national-assembly.html/)

2.1 CUTS Comments

a) Impact on India's exports to EU

Both India and Vietnam are performing well in EU market. As a large market of 27 countries, India's exports to EU were very high at US\$ 55.86 billion in 2019. Though Vietnam's exports to EU in 2019 were not as much as that of India, but they were not insignificant either. Vietnam's exports to EU were US\$ 12.79 billion in 2019.

The EU is India's largest trading partner, accounting 11.1 per cent of total Indian trade and the second largest market for India's products.⁷ The items India majorly exports to EU are: petrol oil bituminous mineral, diamonds, medicaments, turbo jet engines (of a thrust greater than 25 KN), knitted cotton T-shirts, jewellery, footwear, fish and other aquatic food items. On the other hand Vietnam mostly exports telephones for cellular networks or other wireless networks; foot wear and soles; portable digital data processing machines; coffee (not roasted, not decaffeinated); machines for the reception, conversion and transmission regeneration of voice, images other data; parts for radio and television transmit receive equipment; and cashew nuts. For both India and Vietnam, EU is a major market for their footwear industries.

FKI analysis shown in Table 5.A, which is the indicator for homogeneity in export basket of two countries, reflects that there is little similarity between the export product baskets of India and Vietnam in EU market. This is further confirmed by the values of RECPI analysis (Table 5.B), which shows that India faces limited competition from Vietnam.

⁷ <https://ec.europa.eu/trade/policy/countries-and-regions/countries/india/>

Table 5: India's FKI and RECPI with Vietnam in EU's Market

5.A India's FKI with Vietnam in EU Market					
Competitor	2015	2016	2017	2018	2019
Vietnam	0.1769	0.1764	0.1790	0.1732	0.1872
5.B India's RECPI with Vietnam in EU's Market					
Competitor	2015	2016	2017	2018	2019
Vietnam	0.1113	0.1279	0.1338	0.0572	0.1035
<i>Source: TradeSift calculations using data from Comtrade via WITS 6-Digit</i>					

In order to better understand possible trade diversion likely to be faced by India from Vietnam in EU market as a result of this FTA, SMART analysis was carried out. Findings of such analysis are presented in Table 6 below. Exports from India of foot wear; both knitted and non-knitted dress materials; and fish are likely to be adversely impacted.

Table 6: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion Effect (in thousand US\$)
640399	Footwear, sole rubber, plastics uppers of leather	-12021.01
640391	Boots, sole rubber or plastic upper leather	-6637.39
30617	Fish and crustaceans, molluscs and other aquatic invertebrates Crustaceans	-4831.97
640411	Sport Shoes	-3741.55
620640	Womens, girls blouses, shirts of manmade fibre	-3334.07
620520	Non knitted mens, boys cotton shirts	-3141.73
610910	Knitted cotton T shirts, singlets and other vests	-2380.36
610510	Knitted cotton Mens, boys shirts	-1926.46
640299	Footwear, outer soles uppers of rubber or plastic	-1490.35
620630	Non-knitted Womens, girls cotton blouses and shirts	-1423.75
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using TradeSift software</i>		

b) Impact on India's exports to Vietnam

As a member of ASEAN, Vietnam has given duty concession on certain export items of India. In addition, India's exports to Vietnam were US\$ 5.51 billion in 2019. On the other hand, EU's exports to Vietnam were more than double of Indian exports. EU's exports were US\$ 12.79 billion in 2019.

Bilateral trade between India and Vietnam has seen steady growth over the years. India primarily exports frozen bovine; fish and other aquatic invertebrates; buffalo meat, motor vehicle parts; peanut, cotton, granite slabs, medicaments in dosage; and flat rolled iron steel to Vietnam. On the other hand, products majorly exported by EU to Vietnam are aircraft, turbo jet engine, vaccines for human, antibiotics (in dosage); automobiles; machines and mechanical appliances, transmissions for motor vehicles; medicaments in dosage; and animal feed.

It is observed that medicament (in dosage) is the only common key item exported by both the countries to Vietnam. This is also validated by the values of FKI (in Table 7.A) which shows that there are hardly any common products in the export basket of India and EU to Vietnam. Therefore, RECPI analysis (Table 7.B) also reflects that India faces insignificant competition from EU in Vietnam market.

Table 7: India's FKI and RECPI with EU in Vietnam's Market

7.A India's FKI with EU in Vietnam's Market					
Competitor	2015	2016	2017	2018	2019
EU	0.1372	0.1365	0.1164	0.1360	0.1492
7. B India's RECPI with EU in Vietnam's Market					
Competitor	2015	2016	2017	2018	2019
EU	0.0199	0.0295	0.0189	0.0270	0.0412
<i>Source: TradeSift calculations using data from Comtrade via WITS 6-Digit</i>					

The SMART analysis reveals that exports of certain products from India to Vietnam could be adversely impacted by the EU Vietnam FTA. These products include motor vehicles parts, salt, medicaments, and frozen bovine meat.

Table 8: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion Effect (in thousand US\$)
870899	Motor vehicle parts	-1784.80
250100	Salt (sodium chloride) including solution, salt water	-1230.95
300490	Medicaments	-1026.95
20230	Frozen boneless Bovine cuts	-950.62
840734	spark ignition reciprocating engines	-850.17
220820	Grape brandy	-491.55
410719	Finished leather of Goat, Bovine, and Cow	-434.08
410792	Grain splits leather incl. parchment-dressed leather	-359.54
411310	Leather further prepared after tanning or crusting incl. parchment-dressed leather, of goats	-354.89
410711	Cow lining finished leather	-348.47

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using TradeSift software

2.2 Food for Thought

Indian footwear and leather exports to EU could be adversely impacted by FTA between EU and Vietnam. Given this FTA, it would be useful for India to expedite the discussions on its FTA with the EU, negotiate special tariff lines for textile and leather exports, and improve the ease of running of businesses to attract investments in these sectors. Promotion of garment clusters, by initiating structural reforms and tailoring policy interventions should be the way forward for India.⁸

India is also likely to experience travel diversion from EU in Vietnam for some of its products. It might be useful for India to engage Vietnam in a long term mutually beneficial economic partnership and discuss trade in goods and services through which both countries could gain.⁹ While India and ASEAN are party to a trade agreement, Indian exporters have reportedly faced some procedural difficulties in exports to Vietnam.¹⁰ There is a need to address such concerns and provide a predictable environment to exporters, particularly for products like Indian spices with immunity properties.¹¹

⁸ <https://www.financialexpress.com/economy/eu-vietnam-fta-indias-labour-intensive-export-sectors-to-feel-the-heat-china-may-gain/2006733/>

⁹ https://www.business-standard.com/article/news-ani/how-india-and-vietnam-can-increase-bilateral-trade-119022500121_1.html and <https://economictimes.indiatimes.com/blogs/et-commentary/india-needs-to-gear-up-for-stronger-economic-partnership-with-old-ally-vietnam/>

¹⁰ <https://economictimes.indiatimes.com/news/economy/foreign-trade/physical-copy-of-key-export-document-mandatory-for-shipments-to-thailand-vietnam-under-fta/articleshow/75896489.cms?from=mdr>

¹¹ <https://www.businesstoday.in/current/economy-politics/covid19-impact-indian-spices-in-demand-for-immunity-properties-exports-rise-34-percent-in-june/story/410331.html>

3. Britain strikes a FTA deal with Japan

The British government is aiming to reach a trade deal with Japan by the end of July, 2020 mentioned London's chief negotiator with Tokyo.

Trade between the two countries totaled about \$38 billion in 2019, with Japan being the United Kingdom's 11th largest export market and the United Kingdom the 12th biggest market for Japan.

<https://japantoday.com/category/politics/u.k.-aims-to-strike-trade-deal-with-japan-by-end-of-july>

3.1 CUTS Comments

a) Impact on India's exports to United Kingdom

Prior to Brexit, the United Kingdom was the leading export destination of India among all other country members of EU. Subsequent to the exit from EU, United Kingdom is still within India's top export destination countries in the World. India's export to EU was US\$ 8.8 billion in 2019. However, this export performance of India substantially less than Japan's exports to United Kingdom, valued at US\$ 13.88 billion in 2019.

India's key exports to the United Kingdom (UK) include turbojets; medicaments; jewellery; parts of precious metals; boots; aircraft parts; fish and other aquatic invertebrates; cotton knitted garments for babies and adults and non-knitted synthetic fibre dresses for womens, girls. Japan's key export to United Kingdom include gold in unwrought forms, parts of turbo jet or turbo propeller engines; automobiles including gas turbine powered, spark ignition engine of 1000 - 1500 cc as well as 1500 - 3000 cc and diesel engine of 1500 - 2500 cc; shovels and excavators with revolving superstructure; parts of electric accumulators, including separators; chemical preparations for photographic uses; and static converters.

There is little similarity in the key items exported by India and Japan to UK. FKI analysis in Table 8.A corroborates this. RECPI analysis (8.B) also shows that India faces insignificant competition from Japan for market in UK.

Table 8: India's FKI and RECPI with Japan in UK's Market

8.A. India's FKI with Japan in UK's Market					
Competitor	2015	2016	2017	2018	2019
Japan	0.145	0.139	0.159	0.174	0.147
8.B India's RECPI with Japan in UK's Market					
Competitor	2015	2016	2017	2018	2019
Japan	0.135	0.206	0.282	0.366	0.246
<i>Source: TradeSift calculations using data from Comtrade via WITS 6-Digit</i>					

Table 9 showcases trade diversion (and extent thereof) likely to be experienced by India in UK's market as a result of this FTA. Given Japan's competitiveness in high value automobiles and similar products, India's exports of such products to UK are likely to be adversely impacted.

Table 9: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion effect (in thousand US\$)
840999	Parts for diesel and semi diesel engines	-740.49
870840	Transmissions for motor vehicles	-499.30
848310	Transmission shafts and cranks, cam and crank shafts	-430.42
870850	Drive axles with differential for motor vehicles	-396.24
870899	Motor vehicle parts	-345.77
870830	Brakes and servo brakes parts thereof, of the motor vehicles	-239.32
840991	Parts for spark ignition engines except aircraft	-209.28
293499	Nucleic acids and their salts	-193.70
848340	Gearing, ball screws, speed changers, torque converters	-190.54
840890	Diesel engines, except motor vehicle marine	-173.61

Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using TradeSift software

a) Impact on India's export to Japan:

Japan is at 19th position among India's top export destinations. India's exports to Japan were worth US\$ 4.81 billion in 2019. EU's exports to Japan were close to double of that of India in 2019. EU's exports to Japan were US\$ 8.34 billion in 2019.

India's exports to Japan comprise of: diamonds (jewellery) worked but not mounted or set; light petroleum distillates; fish and other aquatic invertebrates; petroleum spirit for motor vehicles; unagglomerated Iron ore, concentrate, not iron pyrites; not-alloyed aluminium unwrought; ferro silico manganese; Ferro chromium; fish fillets and other fish meat; and Herbicides, anti sprouting products and plant growth regulators.

Whereas, UK's export to Japan comprise of turbo jet engines; parts of turbo jet or turbo propeller engines; medicaments; automobiles, spark ignition engine of 1500 - 3000 cc, 1000 - 1500 cc, greater than 3000 cc and diesel engine of 1500 - 2500 cc; palladium unwrought or in powder form; whiskies; engines, diesel except motor vehicle marine.

This shows that composition of export baskets of India and UK to Japan is very different and FKI analysis (table 10.A) also confirms this. RECPi analysis (Table 10.B) reflects that India face low level of competition from UK and it has decreased in 2019 which is due to lack of similar items in their export basket.

Table 10: India's FKI and RECPI with the United Kingdom in Japan's Market

10.A India's FKI with the United Kingdom in Japan's Market					
Competitor	2015	2016	2017	2018	2019
United Kingdom	0.115	0.131	0.140	0.155	0.133
10.B India's RECPI with the United Kingdom in Japan's Market					
Competitor	2015	2016	2017	2018	2019
United Kingdom	0.051	0.064	0.098	0.356	0.176
<i>Source: TradeSift calculations using data from Comtrade via WITS 6-Digit</i>					

Table 11 shows that India is likely to be experience insignificant trade diversion in products such as dyes, footwear, wool products and tea in the market of Japan due to the FTA between UK and Japan.

Table 11: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion effect (in thousand US\$)
320414	Direct dyes and preparations based thereon	-129.73
640399	Footwear, sole rubber, plastics uppers of leather	-110.78
621420	Non-knitted shawls, scarves, etc, of wool or hair	-75.93
90230	Tea, black (fermented or partly)	-73.44
291620	Cyclan cyclen cycloterpen monocarboxylic acid derivative	-53.92
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using TradeSift software</i>		

3.2 Food for Thought

As indicated earlier, India may be adversely impacted owing to FTA between UK and Japan. In order to assuage such concerns, India and UK should expedite their discussions on an FTA, as was recently highlighted during the 14th Joint Economic and Trade Committee meeting between the two countries.¹² Focus should be on negotiating special tariff lines on products which are likely to get adversely impacted by other trade agreements of UK. It has also been reported that Indian exporters are adversely impacted by red tape and related requirements of the government.¹³ It is be necessary to address such concerns to improve our export performance.

¹² <https://retail.economictimes.indiatimes.com/news/industry/india-uk-affirm-commitment-towards-free-trade-agreement/77165998>

¹³ <https://uk.reuters.com/article/uk-india-exporters/indias-exporters-rue-new-red-tape-requirements-from-government-idUKKCN24P0VY>

India may also face trade diversion from UK for its exports to Japan owing to the FTA. The Federation of Indian Export Organisations has recently pointed out that Indian exports to Japan do not reflect the true potential of trade between the countries. There is a need to facilitate interaction between business stakeholders of the countries to enhance trade.¹⁴ India also needs to push for lowering of market barriers in Japan for its agricultural produce, pharmaceuticals and IT products, and open up services sector as agreed under the bilateral free trade pact for further strengthening of trade and investment ties between the two countries.¹⁵ It could also negotiate special tariff lines for products likely to be adversely impacted by other FTAs of Japan.

¹⁴ <https://economictimes.indiatimes.com/news/economy/foreign-trade/exporters-body-keen-on-value-added-exports-to-japan/articleshow/71655260.cms>

¹⁵ <https://www.thehindubusinessline.com/economy/india-asks-japan-to-lower-entry-barriers-in-agri-pharma-sectors/article32021772.ece>

Annexure I

Finger Kreninin Index (FKI) & Relative Export Competitive Pressure Index (RECPI)

FK Index

The Finger-Kreinin (FK) index provides a way of measuring how similar is two sets of numbers. In principle it can be used to compare the similarity between either the structure of a country's imports or exports with any two partner countries, to indicate how similar is a country's export pattern to its import pattern, whether geographically or by product; or to compare the structure of production in two different countries.

FKI to a Destination Country

This version of the FK index compares the export patterns of two countries into a given market (for example, UK and Japan's exports to the world or to India). Another way of thinking about this is that it compares how similar are the imports of a given country from two different suppliers. This version of the indicator is useful for example if you want to consider the overall similarity of the exports of two countries, and therefore their degree of competitiveness/complementarity either with respect to particular markets, or with respect to their trade with the world.

The mathematical formula for the FK index to a destination country is as follows:

$$FK_{i_1 i_2 j} = \sum_k \min \left[\left(\frac{x_{i_1 j}^k}{X_{i_1 j}} \right), \left(\frac{x_{i_2 j}^k}{X_{i_2 j}} \right) \right]$$

In the FKI by destination, i_1 and i_2 are two source countries and j is a destination country. x^k refers to trade flow in product k ; X as total trade flow, so $x_{i_1 j}^k / X_{i_1 j}$ is the share of product k in country i_1 's total exports to the destination partner (j). $x_{i_2 j}^k / X_{i_2 j}$ is the share of product k in the comparator country's (i_2) total exports.

RECPI

The Relative Export Competitive Pressure Index (RECPI) is designed to explore the average degree of competition country i_1 faces in country j 's market from country i_2 , by taking into account both the structure and level of competing countries' trade. Country i_1 will be interested in the value of country i_2 's exports to country j , and also in the extent to which country i_2 's exports are in direct competition with country i_1 's exports.

The Relative Export Competitive Pressure Index (RECPI) is defined for exporter i_1 with respect to competitor i_2 in market j as:

$$RECPI = \frac{\sum_k s_{i_2 j}^k x_{i_2 j}^k}{\sum_k s_{i_1 j}^k x_{i_1 j}^k}$$

Where k refers to the product, i_1 to the reporting country, i_2 to the competitor country, and the s and x data refer to a given export destination, country j . x_{ij}^k is the value of country i 's exports to country j of good k , and s_i^k gives the share of good k in country i 's exports to country j .

The RECPI is a summary measure which aggregates information from across a range of sectors, subsectors or products. Hence the index can be provided either for all trade, or for particular sectors – in all cases on the basis of more detailed sub-sectoral or product level detail.