CUTS Dossier on Preferential Trade Agreements
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Contents

1. Trump says US to begin working on free-trade deal with Brazil

US President Donald Trump said the United States will pursue a trade deal with Latin America's largest nation, one of the least open economies in the world, highlighting his close personal relationship with his Brazilian counterpart.

China overtook the US as Brazil's top trading partner around a decade ago, but President Jair Bolsonaro has repeatedly spoken of his desire to expand trade relations with the US, currently worth around US$62 billion a year. In a recent visit to Washington he told business leaders that Brazil would be willing to forgo some benefits at the World Trade Organisation (WTO) in return for a deal with the United States.

https://www.batimes.com.ar/news/latin-america/trump-says-us-to-begin-working-on-free-trade-deal-with-brazil.phtml

1.1 CUTS Comments

Both India and USA export insecticides (HS code 380891) in large, albeit different quantities, to Brazil. The total value of insecticides exported by India to Brazil in 2018 was USD 252.38 million. During the same period, USA exported insecticides worth USD 462.65 million. Other key common product exported by the two countries to Brazil during this period was Petrol Oil Bitum Mineral (not Crude or Biodiesel) (HS code 271019).

In case USA and Brazil enter into an FTA, the tariffs on trade of products among these countries are likely to significantly decline. Consequently, exports by India to Brazil are likely to be negatively impacted. On the basis of SMART Analysis to estimate trade diversion effect on India, unsurprisingly, exports to Brazil of insecticides is likely to be most adversely impacted. Export of other products which may be adversely impacted is set out below in Table 1 below:

Table 1: India's Top 10 Highly Affected Indian Products in Brazil Market

Product Code	Product Description	Trade Diversion Effect (in thousand USD)
380891	Insecticides	-11666.08
300490	Medicaments Nesoi, Measured Doses, Retail	-4639.22
901839	Med Needles, Catherers etc and Parts etc	-1095.38
380893	Herbicides, anti-sprouting products and plant-growth regulators	-733.39
960200	Veg Molded Resin etc Carving Material	-697.50
300390	Medicaments Nesoi, Not in Dosage Form etc	-626.67
293359	Compound with Pyrimidine or Piperazine Ring	-618.66
293339	Compounds Contain an Unfused Pyridine Ring	-608.64
848340	Gearing, ball screws, speed changers, torque converte	-584.69
380892	Fungicides	-556.69

India already has a preferential trade agreement with MERCOSUR, inclusive of Brazil, and is already enjoying tariff concessions on trade of several products. In 2018, the total exports to Brazil were worth USD 3576.96 million and total imports valued USD 5616.20 million. Consequently, India experienced a trade deficit of around USD 2039.24 million. USA is much bigger trading partner of Brazil, when compared with India. Exports from USA to Brazil are worth more than ten times Indian exports. In 2018, The total export from USA to Brazil and import from Brazil to USA stood at USD 39599.84 million and USD 32286.17 million respectively. Consequently, USA experienced a trade surplus with Brazil worth USD 7273.67 million.

In case of trade between India and USA, Diamonds, Nonindustrial, Worked (HS code 710239) are key products exported by India to USA, with total export value in 2018 being USD 8363.39 million. Brazil’s key export to USA is Crude Oil from Petroleum and Bituminous Minerals (US code 270900) with total export worth USD 3076.15 million in 2018. Petrol Oil Bitum Mineral (not

Crude or Biodiesel) (HS Code 271019) was a key common product exported both by India and Brazil to USA with exports worth USD 691.66 million and USD 418.07 million in 2018, respectively.

In case USA and Brazil enter into FTA, the tariffs on trade of products among these countries are likely to significantly decline. Consequently, exports by India to USA are likely to be negatively impacted. On the basis of SMART Analysis to estimate trade diversion effect on India, exports to USA of products like Worked Granite (HS code 680293), Tobacco Partly or Wholly Stemmed/ Stripped (HS Code 240120) are likely to be adversely impacted. Export of other products which may be adversely impacted is set out below in Table 2 below:

Table 2: India's Top 10 Highly Affected Products in USA Market

Product Code	Product Description	Trade Diversion Effect (in thousand USD)
680293	Worked granite	-4214.89
240120	Tobacco partly or wholly stemmed / stripped	-3083.29
640399	Leather Sandals	-396.2
630260	Toilet & Kitchen Linen of Cotton Terry Fabrics	-268.5
293339	Compounds Contain an Unfused Pyridine Ring	-212.88
840999	Spark-ignition Reciprocating Int Com Pistn Engine	-207.02
290919	Acyclic Ethers (excl Diethyl Ether)	-187.73
848220	Tapered roller bearings, including cone and tapered roller assemblies	-73.06
392190	Cellulose & its Chemical Derivatives	-72.24
640359	Other Leather Shoes of Woman, Man, and Children	-67.33

India and USA are also exploring the potential to enter into an FTA. India is already a much bigger trading partner of USA when compared with Brazil. In 2018, its total exports and imports were worth USD 51628.59 million and USD 38904.47 million, respectively. Consequently, India is running a trade surplus with USA worth USD 12724.11 million. Brazil experienced a trade deficit with USA of around USD 180.20 million in 2018.

In order to conduct the SMART analysis, it has been assumed that Brazil will reduce its tariff rates to zero for products originated from USA and vice-e-versa. To quantify the negative effect on Indian products in either of these two markets, SMART analysis has been undertaken on selected products. This product selection has been done separately for Brazil and USA markets. Only such common products with export value of at least USD one million have been selected in 2018. Consequently, total 197 common products were found in between India and USA, exports of which to Brazil was worth at least USD one million USD. SMART analysis has been conducted on these selected 197 products only. Of them, ten most affected products of India, having high trade diversion effects, are listed with corresponding negative diversion effect in table 1. Similarly, total 442 common products were found between India and Brazil, exports of which to USA in 2018. were worth at least USD one million. Of them, ten most affected products of India, having high trade diversion effects, are listed with corresponding negative diversion effect in table 2.

Overall, the degree of homogeneity as well as competitive pressure that India is facing while trading with these respective markets can be assessed from the two indices: FKI (Finger-Kreinin Index); and RECPI (Relative Export Competitive Pressure Index).

The 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). As indicated in the table 3 below, there is low similarity between export structures of India and USA in Brazil's market. Similarly, there is little similarity between export structures of India and Brazil in USA's market.

The 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 3 below summarises the results of FKI and RECPI analysis. As indicated in table 3 below, the competitive pressure faced by India from USA in Brazil market is high and increasing. To the contrary, India is not facing significant competitive pressure from Brazil in the USA market.

Table 3: FKI & RECPI among India, Brazil, and USA

A. India's FKI with USA in Brazil's Market							**B. India's FKI with Brazil in USA' Market**					
Competitor	**2014**	**2015**	**2016**	**2017**	**2018**		**Competitor**	**2014**	**2015**	**2016**	**2017**	**2018**
USA	0.24	0.27	0.23	0.20	0.21		Brazil	0.12	0.13	0.13	0.13	0.15
C. India's RECPI with USA in Brazil's Market							**D. India's RECPI with Brazil in USA' Market**					
Competitor	**2014**	**2015**	**2016**	**2017**	**2018**		**Competitor**	**2014**	**2015**	**2016**	**2017**	**2018**
USA	1.01	2.41	4.47	3.45	3.70		Brazil	0.02	0.02	0.01	0.01	0.02
Source: *TradeSift calculations using data from Comtrade via WITS (HS 6-Digit)*												

1.3 Food for thought

Given that India faces significant competitive pressure from USA in the Brazil market, and key exports from USA and India to Brazil are common, India may be adversely impacted owing to an FTA between Brazil and USA. This may widen the already existing trade deficit between India and Brazil. In order to contain this situation and protect its trade interests, India may have to negotiate for special tariff lines with Brazil. It will also need to introduce domestic reforms to make its existing and potential exports to Brazil globally competitive.

2. Dhaka to form body to negotiate signing FTA with Malaysia

Bangladesh will form a committee to negotiate signing Free Trade Agreement (FTA) with Malaysia. The information was revealed at the 'Showcase Bangladesh-Go Global' at the Royale Chulan Hotel in Kuala Lumpur. Commerce Minister Tipu Munshi inaugurated the showcase as the chief guest.

Tipu Munshi said the government is thinking about signing the FTA with Malaysia. At a session, former Bangladesh Bank governor Dr Atiur Rahman also recommended signing FTA immediately to boost bilateral trade and investment relations between the two countries.

BMCCI President Syed Moazzam Hossain said a committee will be formed as early as possible to negotiate the FTA between the two countries. "Bilateral trade between the two countries will boost up after the signing of the FTA," he added.

http://www.theindependentbd.com/post/207033

2.1 CUTS Comments

India's key export to Bangladesh is Cotton, not carded or combed (HS Code 520100) with export worth USD 790.76 million in 2018. Malaysia's key export to Bangladesh is Kerosene Oil, turbine fuel, fuel oil, diesel, base oil, jute batching, and textile oil (HS Code 271019) with export worth USD 910.71 in 2018. India also exports it to Bangladesh with total export valuing USD 647.98 million in the same year.

In case Malaysia and Bangladesh enter into an FTA, the tariffs on trade of products among these countries are likely to significantly decline. Consequently, exports by India to Bangladesh are likely to be negatively impacted. On the basis of SMART Analysis to estimate trade diversion effect on India, exports to Bangladesh of Structures and parts of structures, iron and steel (HS Code 730890) is likely to be most adversely impacted. Export of other products which may be adversely impacted is set out below in Table 4 below:

Table 4: India's Top 10 Highly Affected Products in Bangladesh Market

Product Code	Product Description	Trade Diversion Effect (in thousand USD)
730890	Structures and parts of structures, iron or steel	-231.729
390760	Poly(ethylene terephthalate)	-201.009
760110	Aluminium, not alloyed	-168.284
250840	Clays	-134.976
210690	Food Preparations Nesoi	-129.17
381230	Anti-oxidising preparations and other compound stabilisers for rubber or plastics	-127.815
392020	EVA (Ethylene Vinyl Acetate) Resin, EVA Masterbatch, and Poly Ethylene Terephthalat of Polymers or of Propylene	-103.414
283650	Calcium carbonate	-100.705
321519	Printing ink, other than black	-95.475
382490	Products And Residuals Of Chemical Industry	-86.07

India has expressed interest to enter into an FTA with Bangladesh given Bangladesh's imminent graduation from least development country status subsequent to which India will no longer be able to enjoy tariff benefits under the South Asia Free Trade Agreement. The trade between India and Bangladesh is already substantial and much more than the trade between Malaysia and Bangladesh. In 2018, India enjoyed a trade surplus of USD 7659.2 million in its trade with Bangladesh.

In case of trade between India and Malaysia, Kerosene oil, turbine fuel, fuel oil, diesel, base oil, jute batching, and textile oil (HS Code 271019) has been the key export from India to Malaysia in 2018, with exports valuing USD 2109.55 million. This was also exported from Bangladesh to Malaysia, albeit in a limited quantity, valuing USD 24.20 million in the same year.

In case Malaysia and Bangladesh enter into an FTA, the tariffs on trade of products among these countries are likely to significantly decline. Consequently, exports by India to Malaysia may be negatively impacted.

India and Malaysia have already entered into an FTA and thus India is benefitting from preferential duties, and vice versa. Indian imports from Malaysia are much more than its exports and thus India experienced a trade deficit of USD 6325.62 million in its trade with Malaysia in 2018.

In order to conduct SMART analysis, in Bangladesh market, total 68 products found, exports of which from India as well as Malaysia were at least USD one million in 2018. Similarly, 15 products were found in the Malaysian market, exports of which from India as well as Bangladesh were at least USD one million in 2018. However, given that India is already enjoying zero tariffs on these 15 products under the Malaysia-India Comprehensive Economic Cooperation Agreement, the trade diversion effect for India of these 15 products, based on the SMART analysis was found to be null.

Overall, the degree of homogeneity as well as competitive pressure that India is facing while trading with these respective markets can be assessed from the two indices: FKI (Finger-Kreinin Index); and RECPI (Relative Export Competitive Pressure Index).

The 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). As indicated in the table 5 below, there is little similarity between export structures of India and Malaysia in Bangladesh's market. Similarly, there is little similarity between export structures of India and Bangladesh in Malaysian market.

The 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 5 below summarises the results of FKI and RECPI analysis. As indicated in table 5 below, the competitive pressure faced by India from Malaysia in Bangladesh's market is low but increasing. To the contrary, India is not facing significant competitive pressure from Bangladesh in the Malaysian market.

Table 5: FKI & RECPI among India, Malaysia, and Bangladesh

<table>
<tr><th colspan="6">A. India's FKI with Malaysia in Bangladesh's Market</th><th></th><th colspan="6">B. India's FKI with Bangladesh in Malaysia's Market</th></tr>
<tr><th>Competitor</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th></th><th>Competitor</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th></tr>
<tr><td>Malaysia</td><td>0.12</td><td>0.12</td><td>0.14</td><td>0.17</td><td>0.19</td><td></td><td>Bangladesh</td><td>0.05</td><td>0.08</td><td>0.08</td><td>0.09</td><td>0.13</td></tr>
<tr><th colspan="6">C. India's RECPI with Malaysia in Bangladesh's Market</th><th></th><th colspan="6">D. India's RECPI with Bangladesh in Malaysia's Market</th></tr>
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<tr><td>Malaysia</td><td>0.05</td><td>0.02</td><td>0.04</td><td>0.15</td><td>0.37</td><td></td><td>Bangladesh</td><td>0.00</td><td>0.00</td><td>0.00</td><td>0.01</td><td>0.01</td></tr>
<tr><td colspan="13">Source: TradeSift calculations using data from Comtrade via WITS (HS 6-Digit)</td></tr>
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3.1 Food for thought

India is facing increasing competitive pressure from Malaysia in Bangladeshi market, and is likely to experience negative trade diversion for its exports to Bangladesh in case of an FTA between Malaysia and Bangladesh. India will need to take adequate measures to contain this situation. It could negotiate special tariff lines with Bangladesh, and speed up the negotiations to enter into an FTA with Bangladesh. Also, it will need to introduce structural reforms in domestic market to make its exports globally competitive. Given that India is also running a huge trade deficit with Malaysia, domestic reforms will help it fare better in Malaysian market as well.