

CUTS Dossier on Preferential Trade Agreements
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1. EU signs Economic Partnership Agreement with Southern African countries

The European Union (EU 28) and six countries of the Southern African Development Community (SADC) signed an Economic Partnership Agreement (EPA), the first of its kind between the EU and an African region pursuing economic integration. The signature took place in Kasane, Botswana. The Economic Partnership Agreement (EPA) with Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland – i.e. the so-called SADC EPA group – is a development-oriented free trade agreement. The Southern African markets will open gradually and partially to EU exports, in an asymmetric way. In the process of diversifying their economies and broadening production, imports of certain goods are important for Southern African nations – certain industrial parts, seeds and machinery, for instance. The import duties on many of these so-called intermediary goods will be significantly reduced, making the products more easily accessible to Southern African entrepreneurs.

(http://europa.eu/rapid/press-release_IP-16-2154_en.htm)

CUTS Comments

This new equation is likely to have some impacts on the export basket of India. However, our research based on ITC database and TradeSift software shows that the presence of India and SADC countries in the EU market and that of India and EU countries in the SADC market are competing on relatively moderate numbers of products.

Trade statistics reveal that in 2015 the total value of India's export to the EU was approximately US\$ 44.7 billion. In the same year, total value of SADC export to the EU was approximately US\$ 19.9 billion. Thus, in terms of the value of total export, India is enjoying a significant advantage over SADC countries in the EU market.

As shown in Table 1.1, India and SADC countries are competing in four product segments (among their top 10 exports to EU) such as pearls, precious stones, metals, coins, etc.; machinery, nuclear reactors, boilers, etc.; mineral fuels, oils, distillation products, etc.; and vehicles other than railway, tramway. Currently, India is better positioned than SADC countries in these products and as a result of this FTA it may affect India's export interest in these markets.

On the other hand, there are products like articles of apparel, accessories, not knit or crochet; organic chemicals; articles of apparel, accessories, knit or crochet; electrical, electronic equipment; articles of iron or steel; and footwear, gaiters and the like, parts thereof, where, as compared to SADC countries, India is likely to remain a leading player in the EU market.

India's Export to EU (Export in 2015: US\$ 44706mn)		SADC Export to EU (Export in 2015: US\$ 19910.85 mn)		
Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)
3263	-8.0	Pearls, precious stones, metals, coins, etc.	4351	-11.7
3230	-3.7	Articles of apparel, accessories, not knit or crochet	...	...
3079	2.0	Organic chemicals	...	...
3029	3.1	Articles of apparel, accessories, knit or crochet	...	...
2842	3.4	Machinery, nuclear reactors, boilers, etc.	1227	-13.7
2470	-18.6	Mineral fuels, oils, distillation products, etc.	788	-13.1
2144	-0.9	Vehicles other than railway, tramway	3699	16.5
1854	-10.1	Electrical, electronic equipment	...	...
1649	0.1	Articles of iron or steel	...	...
1579	-0.9	Footwear, gaiters and the like, parts thereof	...	...
		Edible fruit, nuts, peel of citrus fruit, melons	1393	5.7
		Aluminium and articles thereof	1139	-9.9
		Ores, slag and ash	1134	-14.8
		Iron and steel	1128	-10.3
		Fish, crustaceans, molluscs, aquatic invertebrates, nes	531	-5.9
		Beverages, spirits and vinegar	421	-5.7
25138 (56%)		Top 10 Products (percentage of total export)	15810 (79%)	

Source: International Trade Centre Database

In 2015, India's export to SADC countries was valued at approximately US\$ 5.5 billion and the EU's export to SADC countries was approximately US\$ 30.2 billion. Following this FTA it is expected that India's export to SADC countries may get affected in some product segments. Though the EU's export similarity and complementarity are moderate (see Table 1.3), trade diversion in favour of EU as well as SADC countries may not be ruled out.

India is the 6th and 24th largest importing sources for SADC and EU countries, respectively. Products like mineral fuels, oils, distillation products, etc.; vehicles other than railway, tramway; pharmaceutical products; machinery, nuclear reactors, boilers, etc.; ships, boats and other floating structures; organic chemicals; cereals; electrical, electronic equipment; articles of apparel, accessories, knit or crochet; and plastics and articles thereof are major export items from India to SADC countries. If we compare the data shown in Table 1.2, India and EU countries compete with each other in five of those products.

Additionally, if we look at trend export growth 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 should take necessary measures to maintain and increase its trade competitiveness in these products.

Table 1.2				
India's Export to SADC (Export in 2015: US\$ 5504.24mn)			EU's Export to SADC (Export in 2015: US\$ 30201.29mn)	
Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)
1888	1.7	Mineral fuels, oils, distillation products, etc.	1114	-8.1
804	0.2	Vehicles other than railway, tramway	5423	-3.2
718	18.5	Pharmaceutical products	1498	-0.1
196	1.4	Machinery, nuclear reactors, boilers, etc.	6223	-4.9
147	60020.5	Ships, boats and other floating structures	...	...
138	5.0	Organic chemicals	...	...
129	15.5	Cereals	...	...
128	-11.5	Electrical, electronic equipment	3306	-5.1
104	8.1	Articles of apparel, accessories, knit or crochet	...	...
92	-6.1	Plastics and articles thereof	1040	0.4
		Optical, photo, technical, medical apparatus, etc.	1250	-2.5
		Miscellaneous chemical products	688	-1.0
		Aircraft, spacecraft, and parts thereof	630	-11.0
		Articles of iron or steel	605	1.1
4343 (79%)		Top 10 Products (percentage of total export)	21777 (72%)	

Source: International Trade Centre Database

Given this composition of trade among 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 1.3B varies between 0.21 and 0.27 and shows no tendency to increase over the years indicating stability in similarity of export of India and EU countries to SADC countries. This means that though at the aggregate level India and EU countries were competing in the SADC market there is stability in that competition. On the other hand, the level of export similarity between India and SADC countries in the EU market was also low (Table 1.3A). That means, the competition between India and EU countries in the SADC market was more than that of India and SADC countries in the EU market.

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

Table 1.3: FKI and RECPI among India-EU 28-SADC EPA (2011-15)											
A. India's FKI with EU						B. India's FKI with SADC					
Competitor	2011	2012	2013	2014	2015	Competitor	2011	2012	2013	2014	2015
SADC EPA	0.13	0.13	0.14	0.14	NA	EU 28	0.26	0.27	0.23	0.21	0.24
C. India's RECPI with EU						D. India's RECPI with SADC					
Competitor	2011	2012	2013	2014	2015	Competitor	2011	2012	2013	2014	2015
SADC EPA	0.03	0.03	0.06	0.08	NA	EU 28	0.92	0.60	0.26	0.22	0.45

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 EU and SADC products will receive reciprocal preferential treatment in their respective market. India is yet to have a bilateral trade agreement with the EU as well as with the SADC. In the wake of expected changes in trade in goods, services as well as investment relationship among India, EU and SADC, India should put more emphasis on fast-tracking its negotiation with the EU to conclude its Bilateral Trade and Investment Agreement and should start negotiation with the SADC for a comprehensive FTA in order to remain competitive in these markets. The threat factor is: India may lose its market share to EU as well as SADC countries in some product segments.

2. Free trade agreement talks between GCC and China gain momentum

The talks between Gulf Cooperation Council (GCC) countries and China to reach a free trade agreement (FTA) have gained momentum. Once implemented, the agreement will further boost cooperation and the volume of trade between the two sides...The total value of the GCC exports to China was \$101bn in 2014, equal to 11.7 percent of the total value of the GCC exports to the whole world for the same year. The total value of the GCC exports to China witnessed an increase in the period 2010-2014 with an annual growth average of 17.8 percent. A free trade will benefit China and GCC countries. There are vast horizons for the Chinese economy to benefit from this free trade agreement. Chinese economy has been growing since 1978 at a rate of 6-13 percent annually. This big growth needs more consumers to the raw materials and strategic commodities in order to keep balance and momentum.

(<http://www.thepeninsulaqatar.com/business/qatar-business/382053/free-trade-agreement-talks-between-gcc-china-gain-momentum>)

CUTS Comments

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

Trade statistics reveal that in 2015 the total value of India's export to GCC was approximately US\$ 41.7 billion, whereas that of China to GCC was approximately US\$ 67.9 billion. This shows that at the moment the China is better positioned than in GCC's market.

As shown in Table 2.1, India and China are competing in some product segments (in their top 10 exports) such as articles of apparel, accessories, not knit or crochet; articles of apparel, accessories, knit or crochet; machinery, nuclear reactors, boilers, etc.; electrical, electronic equipment; and articles of iron or steel. In most of these competing product segments, the annual export growth of India and China during 2011-2015 was almost similar. The new trade equation may change the growth momentum in favour of China and further strengthen its position in these product segments in the GCC market.

Table 2.1				
India's Export to GCC (Export in 2015: US\$ 41745.3mn)		China's Export to GCC (Export in 2015: US\$67940.8 mn)		
Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$mn)	Annual Growth (2011-2015, %)
12419	-10.1	Pearls, precious stones, metals, coins, etc.	...	...
7011	-3.1	Mineral fuels, oils, distillation products, etc.	...	...
2190	1.8	Cereals	...	...
2068	30.0	Articles of apparel, accessories, not knit or crochet	3761	29.3
1847	35.7	Articles of apparel, accessories, knit or crochet	4670	5.9
1530	2.1	Machinery, nuclear reactors, boilers, etc.	10545	7.7
1161	-7.9	Electrical, electronic equipment	10710	12.4
1072	5.7	Articles of iron or steel	3145	4.7
948	1985.5	Aircraft, spacecraft, and parts thereof	...	...
938	-5.9	Ships, boats and other floating structures	...	...
		Furniture, lighting, signs, prefabricated buildings	4706	25.0
		Vehicles other than railway, tramway	2477	26.9
		Plastics and articles thereof	2213	23.7
		Iron and steel	2172	7.9
		Ceramic products	2072	24.7
31184 (75%)		Top 10 Products (percentage of total export)	46472 (68%)	

Source: International Trade Centre Database

At the same time, in 2015, India's export to China was valued at approximately US\$ 9.6 billion, whereas that of GCC to China was approximately US\$ 37.3 billion. It is expected that India's export interest may get further affected as a result of GCC-China FTA.

In 2015, India was the 3rd largest source of import for GCC and 27th largest source of import for China. Products like cotton; copper and articles thereof; organic chemicals; mineral fuels, oils, distillation products, etc.; salt, sulphur, earth, stone, plaster, lime and cement; machinery, nuclear reactors, boilers, etc.; ores, slag and ash; plastics and articles thereof; animal, vegetable fats and oils, cleavage products, etc.; electrical, electronic equipment are major exports from India to China.

If we compare the data from Table 2.2, India and GCC largely compete with each other in products such as copper and articles thereof; organic chemicals; mineral fuels, oils, distillation products, etc.; salt, sulphur, earth, stone, plaster, lime and cement; ores, slag and ash; and plastics and articles thereof. At present, competition between India and GCC in China's market is substantial.

It was also observed that in products like cotton; machinery, nuclear reactors, boilers, etc.; animal, vegetable fats and oils, cleavage products, etc.; and electrical, electronic equipment, India has an edge over GCC countries. Because of this advantage, it has the potential to improve its overall position in China's market.

India's Export to China (Export in 2015: US\$ 9576.58mn)		GCC's Export to China (Export in 2015: US\$ 37292.70 mn)		
Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)
1985	-9.0	Cotton	...	...
1266	-8.0	Copper and articles thereof	221	1012.2
868	0.0	Organic chemicals	5058	107.1
602	-4.0	Mineral fuels, oils, distillation products, etc.	26441	15.4
566	5.0	Salt, sulphur, earth, stone, plaster, lime and cement	327	23.2
475	8.0	Machinery, nuclear reactors, boilers, etc.	...	...
435	-44.0	Ores, slag and ash	196	-11.1
319	-16.0	Plastics and articles thereof	3775	53.7
281	-4.0	Animal, vegetable fats and oils, cleavage products, etc.	...	...
247	-3.0	Electrical, electronic equipment	...	...
		Vehicles other than railway, tramway	430	-9.8
		Commodities not elsewhere specified	243	69107.4
		Aluminium and articles thereof	107	11.5
		Inorganic chemicals, precious metal compound, isotopes	69	808.6
7045 (74%)		Top 10 Products (percentage of total export)	36867 (99%)	

Source: International Trade Centre Database

The FKI in Table 2.3A varies between 0.15 and 0.20, indicating some similarity of exports of India and China to GCC than that of India and GCC to the Chinese market. This means that at the aggregate level and to some extent similarity of India and China's export to GCC is more similar than that of India and GCC in the Chinese market.

Similar to the results of the Finger-Kreinin Index, Table 2.3C shows that during 2011-2015 the RECI of India with GCC were low indicating that the degree of competition between India and China in the GCC market was low. It means that competition was low due to varied level of value added products, which are traded by India, GCC and China with each other

Table 2.3: FKI and RECPI among India-GCC-China (2011-15)											
A. India's FKI with GCC						B. India's FKI with China					
Competitor	2011	2012	2013	2014	2015	Competitor	2011	2012	2013	2014	2015
China	0.15	0.16	0.17	0.16	0.20	GCC	0.02	0.06	0.06	0.05	0.06
C. India's RECPI with GCC						D. India's RECPI with China					
Competitor	2011	2012	2013	2014	2015	Competitor	2011	2012	2013	2014	2015
China	0.02	0.02	0.03	0.03	0.04	GCC	0.00	0.02	0.02	0.08	0.05

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

Food for Thought

India does not have bilateral trade agreement with GCC and China. Therefore, India should put more emphasis on concluding its FTA talks GCC and should also undertake additional trade facilitation measures to improve its supply chain as well as trade competitiveness to face competition from China in GCC markets.

3. Iran, EEU move closer to free trade deal

The Eurasia Economic Union (EEU) in May 2015 gave the initial go-ahead to signing a free trade agreement with Iran. Accordingly, a proposal to the same effect was approved by all members of Union in a meeting in the Armenian capital, Yerevan. The EEU - an economic union of former Soviet states led by Russia to guarantee free transit of goods, services, capital and workers among members – has already said it is conducting similar discussions with several other countries including Egypt and Vietnam.

(<http://www.presstv.ir/Detail/2016/05/13/465419/Iran-EEU-move-closer-to-free-trade-deal>)

CUTS Comments

The FTA between Iran and EEU is likely to have some impacts on India's export basket. Though at present competition is low, the situation may change in the favour of Iran and EEU in the long-run.

Trade statistics reveal that in 2015 total value of India's export to Iran was approximately US\$ 3.1 billion. In the same year, the value of EEU's export to Iran was approximately US\$ 1.7 billion.

As shown in Table 3.1, India and EEU are competing in six product segments (in their top 10 exports) such as cereals; iron and steel; machinery, nuclear reactors, boilers, etc.; electrical, electronic equipment; paper and paperboard, articles of pulp, paper and board; and vehicles other than railway, tramway. In the competing product segments the annual growth of export of India during 2011-2015 was higher than that of the EEU. There are products like organic chemicals; coffee, tea, mate and spices; manmade staple fibres; and miscellaneous chemical products, where India is likely to remain a leading player as compared to the EEU.

Table 3.1				
India's Export to Iran (Export in 2015: US\$ 3126.9mn)		EEU's Export to Iran (Export in 2015: US\$ 1699.6mn)		
Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)
740	9.0	Cereals	575	68.5
478	37.0	Iron and steel	606	-20.7
234	29.0	Organic chemicals	...	...
166	8.0	Machinery, nuclear reactors, boilers, etc.	72	-6.7
136	17.0	Coffee, tea, mate and spices	...	...
118	11.0	Electrical, electronic equipment	23	-4.5
115	10.0	Manmade staple fibres	...	...
80	19.0	Miscellaneous chemical products	...	...
67	39.0	Paper and paperboard, articles of pulp, paper and board	29	-14.2
65	41.0	Vehicles other than railway, tramway	21	-14.0
		Wood and articles of wood, wood charcoal	124	-11.8
		Mineral fuels, oils, distillation products, etc.	80	-15.6
		Animal, vegetable fats and oils, cleavage products, etc.	32	608.2
		Inorganic chemicals, precious metal compound, isotopes	28	113.5
2198.5 (70%)		Top 10 Products (percentage of total export)	1590.3 (94%)	

Source: International Trade Centre Database

At the same time, when we talk about export from India to the EEU, in 2015, it was valued at approximately US\$ 1.9 billion, whereas that of Iran to the EEU was approximately US\$ 541 million. It is expected that EEU's import from India may not get affected in the short run (See Table 3.2).

India is the 11th and 20th largest import source for Iran and EEU, respectively. As shown in Table 3.2, India and Iran are competing in one product segment (in their top 10 exports) such as machinery, nuclear reactors, boilers, etc. Currently, India is better positioned than Iran in this product segment.

It was also observed that in products like pharmaceutical products; 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, India has an edge over Iran. Because of this advantage, it has the potential to improve its overall position in EEU's market.

India's Export to EEU (Export in 2015: US\$ 1881.4mn)		Iran's Export to EEU (Export in 2015: US\$ 541.02 mn)		
Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)	Sectors	Export Value in 2015 (US\$ mn)	Annual Growth (2011-2015, %)
425	-7.2	Pharmaceutical products	...	...
177	8.2	Machinery, nuclear reactors, boilers, etc.	13	28.3
149	-6.6	Coffee, tea, mate and spices	...	...
95	-13.5	Aircraft, spacecraft, and parts thereof	...	...
76	6.8	Articles of apparel, accessories, knit or crochet	...	...
60	-6.8	Miscellaneous edible preparations	...	...
59	-19.0	Electrical, electronic equipment	...	...
58	10.9	Articles of apparel, accessories, not knit or crochet	...	...
55	3.7	Organic chemicals	...	...
54	4.4	Vehicles other than railway, tramway	...	...
		Mineral fuels, oils, distillation products, etc.	114	-1.3
		Edible vegetables and certain roots and tubers	113	0.6
		Edible fruit, nuts, peel of citrus fruit, melons	108	-9.2
		Plastics and articles thereof	43	10.6
		Salt, sulphur, earth, stone, plaster, lime and cement	33	21.4
		Vegetable, fruit, nut, food preparations, etc.	11	0.3
		Iron and steel	9	-8.4
		Glass and glassware	9	-12.5
		Inorganic chemicals, precious metal compound, isotopes	8	-6.5
1207.47 (64%)		Top 10 Products (percentage of total exports)	461.7 (85%)	

Source: International Trade Centre Database

There was low similarity of export from India and EEU to Iran and that of India to EEU. The FKI in Table 3.3A varied between 0.04 and 0.07. This means that at the aggregate level and to some extent India and EEU's exports are similar but low. On the other hand, the level of export similarity between India and Iran in EEU's market is low in 2011 (further data are not available). Furthermore, the RECPIs between India and EEU and that between India and Iran indicate that export competitiveness was low for India in EEU's market (see Table 3.3C and D).

Table 3.3: FKI and RECPI among India-Iran-EEU (2011-15)											
A. India's FKI with Iran						B. India's FKI with the EEU					
Competitor	2011	2012	2013	2014	2015	Competitor	2011	2012	2013	2014	2015
EEU	0.04	0.04	0.06	0.07	0.05	Iran	0.04	NA	NA	NA	NA
C. India's RECPI with Iran						D. India's RECPI with the EEU					
Competitor	2011	2012	2013	2014	2015	Competitor	2011	2012	2013	2014	2015
EEU	0.01	0.01	0.00	0.03	0.01	Iran	0.00	NA	NA	NA	NA

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

Food for Thought

As the trade potential among India, Iran and EEU is high and untapped, India needs to take a more positive approach to explore these markets. As a result of this FTA, a wide range of Iran's and EEU's products will receive preferential treatment in their respective market. In the wake of expected changes in trade in goods, services as well as investment relationship among India, Iran and EEU, India should put more emphasis to finalise its comprehensive economic cooperation agreement with the EEU and should go for a similar agreement with Iran with a special emphasis on trade facilitation between India and EEU via Iran.