

CUTS Dossier on Preferential Trade Agreements

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1. Bangladesh for economic partnership deal with Japan

The Financial Express, 22 March, 2014

Bangladesh expressed its keen interest in concluding an Economic Partnership Agreement (EPA) with Japan considering the ‘growing synergies’ between the economies of the two countries. The issue came up for discussions during bilateral talks between Foreign Minister AH Mahmood Ali and his Japanese counterpart Fumio Kishida at the Foreign Ministry in Dhaka on Saturday. At the meeting, Bangladesh and Japan agreed to initiate working-level consultations to reach an understanding on regular foreign office consultations, visa exemption for diplomatic and official passport holders as well as Economic Partnership Agreement (EPA). The two foreign ministers exchanged views on a whole range of issues of bilateral, regional and international interest, said a Foreign Ministry media release, according to a news agency.

(<http://www.thefinancialexpress-bd.com/2014/03/22/24892>)

CUTS Comments

Trade statistics reveal that in 2012 the total value of exports of India to Japan was approximately US\$ 6.4 billion. In the same year, the value of total exports from Bangladesh to Japan was approximately US\$ 719 million, almost one-tenth of India’s exports to Japan. This shows that at the moment India is enjoying significant advantage in Japan’s market because of the India-Japan Comprehensive Economic Partnership Agreement and other factors.

While comparing the data, as shown in Table 1.1, it appears that India and Bangladesh are competing in few products like articles of apparel, accessories, not knit or crochet, footwear, gaiters and the like, etc., among their top ten export products. Currently India is better positioned than Bangladesh in these products, but in case this treaty gets signed and free access of market is granted to Bangladesh by Japan, then India might suffer in the long-run. Furthermore, there are products like fish, crustaceans, molluscs, aquatic invertebrate’s nes, mineral fuels, oils, distillation products, pearls, precious stones, metals, coins, where India is likely to remain a leading player as compared to Bangladesh.

At the same time, when we talk about exports from India to Bangladesh, it was valued at approximately US\$ 5 billion in 2012, whereas Japan's total exports to Bangladesh was approximately US\$ 985 million. Considering the possibility of Economic Partnership Agreement between Bangladesh and Japan, it is expected that Bangladesh's imports from India will get affected. Even with geographical proximity, full implementation of the Agreement on South Asian Free Trade Area and other advantages, India may suffer losses in its terms of trade with Bangladesh.

Table 1.1				
India's exports to Japan (Exports in 2012: US\$6415.55mn)			Bangladesh's exports to Japan (Exports in 2012: US\$718.4mn)	
<i>Export Value in 2012 (US\$mn)</i>	<i>Annual growth (2008-2012, %, p.a.)</i>	<i>Sectors</i>	<i>Export Value in 2012 (US\$mn)</i>	<i>Annual growth (2008-2012, %, p.a.)</i>
2815.37	43	Mineral fuels, oils, distillation products, etc	0	0
358.741	1	Pearls, precious stones, metals, coins, etc	0.007	-9
339.679	18	Fish, crustaceans, molluscs, aquatic invertebrates nes	20.094	0
331.222	7	Residues, wastes of food industry, animal fodder	0	0
291.209	18	Organic chemicals	0	0
287.753	-7	Ores, slag and ash	2.044	7.2
249.24	3	Iron and steel	0.029	-66
201.356	16	Articles of apparel, accessories, not knit or crochet	278.094	70
144.814	11	Machinery, nuclear reactors, boilers, etc	13.861	-8
108.305	46	Vehicles other than railway, tramway	0.016	14
20.806	23	Articles of apparel, accessories, knit or crochet	208.095	97
18.557	31	Footwear, gaiters and the like, parts thereof	91.477	19
5167.05 (80.68%)		Top 10 Products (percentage of total exports)	613.72 (85.42%)	

Source: ITC Database

Bangladesh, being the largest trading partner with India, among South Asian countries, is largely dependent on India for its consumption of primary and manufacturing products. Products like cotton, cereals, sugar, articles of iron and steel (heavy and light), etc. are exported from India to Bangladesh in substantial quantity. If we compare the data from Table 1.2, India and Japan largely compete with each other in many products especially in the case of vehicles other than railway and tramway and machinery, nuclear reactors, boilers etc. and other products of iron and steel.

Also, if we look at the growth trend of these products over the last few years from (2008 to 2012), it indicates that in most of the items, India is relatively better positioned. This situation may not change immediately after the signing of the agreement between

Bangladesh and Japan, but it may affect India's trade in the long-run. Nevertheless, to strengthen its position, India requires taking necessary measures in order to maintain and further increase its competitiveness for these products and to capture enhanced export markets in Bangladesh.

Table 1.2				
India's exports to Bangladesh (Exports in 2012: US\$ 4936.67mn)			Japan's exports to Bangladesh (Exports in 2012: US\$ 985.27mn)	
Export Value in 2012 (US\$mn)	Annual growth (2008-2012, % p.a.)	Sectors	Export Value in 2012 (US\$mn)	Annual growth (2008-2012, % p.a.)
1389.22	26	Cotton	24.327	110
451.98	7	Cereals	0	0
412.69	18	Vehicles other than railway, tramway	153.072	-16
272.53	20	Machinery, nuclear reactors, boilers, etc.	218.238	20
263.81	71	Sugars and sugar confectionery	0.11	-34
200.09	12	Residues, wastes of food industry, animal fodder	0.402	2
126.33	29	Manmade staple fibres	10.118	-5
120.69	12	Organic chemicals	6.528	-6
119.61	-10	Iron and steel	321.723	28
118.33	21	Electrical, electronic equipment	68.905	6
		Copper and articles thereof	28.775	28
		Articles of iron or steel	14.642	24
3475.28 (70.39%)		Top 10 Products (percentage of total exports)	846.84 (85.95%)	

Source: ITC Database

It is also observed that products like chemical product, soaps, lubricants, waxes, candles, modelling pastes, plastics products, electrical products have started doing well in the Bangladesh market. If India make some extra efforts to improve trade relations with Bangladesh, it will improve India's overall position in the Bangladesh market.

Food for Thought

India and Bangladesh does not have any bilateral trade agreement. Though both the countries are members of SAFTA, bilateral trade is not substantial, as compared to their trade potential. Similarly, with Japan, India has a Comprehensive Economic Partnership Agreement, which is yet to reach its full potential. In the wake of expected changes in trade and investment relationship among India, Bangladesh and Japan, should India broaden its bilateral trade relations with Japan and Bangladesh to further strengthen its position in these markets?

2. European Union accelerates FTA negotiations with Vietnam

VietNamNet Bridge, 27 March 2014

The European Union is speeding up negotiations of a free trade agreement (FTA) with Vietnam due to be signed in late 2014. David O'Sullivan, Chief Operating Officer of the European External Action Service (EEAS), was speaking at a reception in Hanoi on March 26 given by Deputy Prime Minister and Foreign Minister Pham Binh Minh. O'Sullivan said the EU will continue strengthening cooperation with Vietnam and considering the country an important partner in the Asia-Pacific region. O'Sullivan briefed his host on the results of the March 24 political consultation, and stated the EU will further assist Vietnam in economic development and poverty reduction. The EU prioritises implementing the Partnership and Cooperation Agreement (PCA) it has signed with Vietnam, and increasing its official development assistance for Vietnam in 2014-2020, he said. In response, Minh appreciated the EU assistance for Vietnam and emphasised that Vietnam always attaches great importance to boosting cooperative ties with the EU. He voiced Vietnam's strong resolve to complete FTA negotiations this year. The two sides asserted that despite the global economic slowdown, two-way trade turnover still grew by 16% to nearly US\$ 34 billion in 2013. The EU remains one of Vietnam's largest trade partners and leading providers of non-refundable aid.

<http://english.vietnamnet.vn/fms/government/98469/eu-accelerates-fta-negotiations-with-vietnam.html>

CUTS Comments

European Union has decided to strengthen its economic cooperation with Vietnam, considering the country as an important partner in the Asia-Pacific region. The proposed EU-Vietnam FTA is likely to get signed by the end of this year and through this, the EU aims to assist Vietnam in its economic development, poverty alleviation, etc. including creating a more transparent investment environment for EU businesses whilst boosting exports, creating jobs, etc. The most recent negotiation discussed that the FTA will involve trade in goods and services, a public investment agenda, customs co-operation, regulations for product origin, removal of technical barriers to trade, sustainable development and relevant legislations.

Trade statistics reveal that India's exports to EU in the year 2012 were approximately US\$ 49 billion, whereas total exports from Vietnam to EU was valued at approximately US\$ 17 billion for the year 2011, which was almost one-fourth the value what India was exporting to the EU. These figures show that as on today India is doing well with the EU and even if this agreement is signed, it will not affect India's export market soon but it may affect India's trade position with the EU in the long-run. Thus, India needs to be more attentive regarding this changing dynamics between the EU and Vietnam and should start taking some precautionary measures.

From Table 2.1 below, it is clear that India and Vietnam strongly compete in few products. Both of them have similar export trends for products like articles of apparel, accessories, not knit or crochet, electrical, electronic equipment, footwear, gaiters and the like, parts thereof, coffee, tea, mate and spices, etc. There are few other products like pearls, precious stones, metals, coins, etc., mineral fuels, oils, distillation products, etc., organic chemicals, vehicles other than railway, tramway, machinery, nuclear reactors, boilers, etc., iron and steel, where, at present, India is enjoying a dominant position in the EU market, but if this agreement is signed, it may be affected in the long-run.

Table 2.1				
India's exports to European Union (EU 27) (Exports in 2012: US\$48528.609mn)			Vietnam's exports to European Union (EU 27) (Exports in 2011: US\$16541.31mn)	
Export Value in 2012 (US\$m)	Annual growth (2008-2012, %, p.a.)	Sectors	Export Value in 2011 (US\$m)	Annual growth (2007-2011, %, p.a.)
7,600.07	63.90	Mineral fuels, oils, distillation products, etc	5.415	87.88
3,563.79	27.94	Pearls, precious stones, metals, coins, etc	86.764	2.49
3,126.76	17.14	Articles of apparel, accessories, not knit or crochet	1747.634	74.34
2,850.99	38.26	Organic chemicals	12.95	160.72
2,568.94	28.66	Electrical, electronic equipment	3376.275	
2,365.46	8.44	Articles of apparel, accessories, knit or crochet	746.101	66.50
2,320.20	12.29	Machinery, nuclear reactors, boilers, etc	842.539	114.37
2,206.51	19.82	Vehicles other than railway, tramway	114.196	101.32
1,652.75	31.12	Articles of iron or steel	240.353	63.51
1,607.20	-37.96	Iron and steel	107.773	
1389.628	13.16	Footwear, gaiters and the like, parts thereof	2644.075	18.84
729.876	38.62	Coffee, tea, mate and spices	1316.49	33.64
31982.179 (65.90%)		Top 10 Products (percentage of total exports)	11,240.57 (67.95%)	
Source: ITC Database				

Mineral fuels, oils, distillation products, etc., organic chemicals, pearls, precious stones, metals, coins, etc., electrical, electronic equipment, articles of iron or steel etc. show good growth trends when considered from 2008-2012 in the EU market. On the other hand, Vietnamese exports have shown respectable growth trends in products like mineral fuels, oils, distillation products, etc., articles of apparel, accessories, not knit or crochet, organic chemicals, machinery, nuclear reactors, boilers, etc., vehicles other than railway, tramway, articles of apparel, accessories, knit or crochet, articles of iron or steel. For products like pearls, precious stones, metals, coins, etc., India has a comparative advantage over Vietnam, as India is a large producer. (Pearl Oyster farming and Pearl Culture is practised in India since 1981.)

Overall, while the new agreement may adversely affect some of the product segments in which both India and Vietnam compete with each other, the impact might not be that strong as India enjoys comparative advantage in most of those products. The scope of trade diversion in non-competing products appears to be limited in the short-run.

Table 2.2				
India's exports to Vietnam (Exports in 2012: US\$3658.16mn)			European Union (EU 27)'s exports to Vietnam (Exports in 2012: US\$6851.16mn)	
Export Value in 2012 (US\$m)	Annual growth (2008-2012, % p.a.)	Sectors	Export Value in 2012 (US\$m)	Annual growth (2008-2012, % p.a.)
828.101	40	Meat and edible meat offal	25.45	-58
477.824	178	Fish, crustaceans, molluscs, aquatic invertebrates nes	183.657	466
402.171	169	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	7.716	-77
327.07	45	Cereals	3.805	-26
255.225	-17	Residues, wastes of food industry, animal fodder	126.806	
156.719	24	Cotton	33.509	15.67
133.912	14	Pharmaceutical products	550.468	73
123.641	89	Coffee, tea, mate and spices	3.514	
109.748	26	Plastics and articles thereof	131.609	10.47
87.428	-9	Iron and steel	227.91	52
76.359	38	Machinery, nuclear reactors, boilers, etc	1134.185	-9
0.007		Aircraft, spacecraft, and parts thereof	1132.465	
2978.205 (81.41%)		Top 10 Products (percentage of total exports)	3561.094 (51.97%)	

Source: ITC Database

Trade statistics of exports to Vietnam show that European countries are better positioned than India. Share of EU's total exports to Vietnam is double than the value of India's exports. Considering the existing gap in the value of exports and the agreement under negotiation, one can argue that the EU's position will further improve in Vietnam's market. However, their impact on India's trade will be restricted to major competing products.

A comparison of top ten export products from India to Vietnam show that the two countries compete with each other in four product segments, namely, fish, crustaceans, molluscs, aquatic invertebrates nes, residues, wastes of food industry, animal fodder, pharmaceutical products, plastics and articles thereof. Pharmaceutical sector is an emerging sector in India and this agreement may pose some threats to Indian pharmaceutical exports. On the other hand, India has comparative advantage over EU in products such as meat and edible meat offal, oil seed, oleagic fruits, grain, seed, fruit, etc., nes, cereals, cotton, coffee, tea, mate and spices, machinery, nuclear reactors, boilers.

India may remain a dominant player in Vietnam's market in products like cereals, plastics and articles thereof, meat and edible meat offal. Overall, it is expected that the agreement between Vietnam and EU may result in some trade diversion given the current competing nature of trade between the countries and India. Therefore, India needs to

keep a close watch on this new development and should think about further diversification of its exports basket.

Food for Thought

Can India take advantages of greater economic integration involving Vietnam and the European Union? Is it possible for India to meet better its increasing requirements of intermediate products for domestic consumption and value addition for exports resulting from an expansion of three-way trade among these countries?