

**CUTS Dossier on Preferential Trade Agreements
January-March 2016
(Vol. X, No. 1)**

*(For all previous issues of PTA Dossiers, please visit:
(<http://www.cuts-citee.org/PTADossier.htm>)*

Contents

- 1. Pakistan, Turkey sign Framework Agreement for establishing FTA 1**
- 2. Malaysia-EU FTA likely to conclude soon 5**
- 3. Bangladesh: FTA with Malaysia this year 8**

1. Pakistan, Turkey sign Framework Agreement for establishing FTA

Pakistan and Turkey signed a Framework Agreement for establishing Free Trade Area (FTA) between the two countries to further boost bilateral trade and investment relations. The framework would cover not only the goods but also services and investment and would also go a long way to strengthening political relations between the two countries.

(<http://www.pakistantoday.com.pk/2016/03/23/business/pakistan-turkey-sign-framework-agreement-for-establishing-fta/>)

CUTS Comments

This new equation 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 Turkey in Pakistan's market and that of India and Pakistan in Turkey's market are competing on relatively few numbers of products.

Trade statistics reveal that in 2014 the total value of India's export to Pakistan was approximately US\$ 2.2 billion. In the same year, total value of Turkey's export to Pakistan was approximately US\$ 259.7 million. Thus, in terms of total exports, India is enjoying a significant advantage over Turkey in Pakistan's market.

As shown in Table 1.1, India and Turkey are competing in three product segments (among their top 10 exports to Pakistan) such as organic chemicals; plastics and articles thereof; and machinery, nuclear reactors, boilers, etc. Currently, India is better positioned than Turkey in these products. As a result of this FTA, it may affect India's export interest in these markets.

However, in the competing product segments, annual growth rate of export items of India during 2010-14 was more than that of Turkey. On the other hand, there are products like cotton; residues, wastes of food industry, animal fodder; edible vegetables and certain roots and tubers; manmade filaments; tanning, dyeing extracts, tannins, derivs, pigments etc; coffee, tea, mate and spices; and manmade staple fibres, where, as compared to Turkey, India is likely to remain a leading player in Pakistan's market.

Table 1.1				
India's Export to Pakistan (Export in 2014: US\$ 2169.95 million)			Turkey's Export to Pakistan (Export in 2014: US\$ 259.68 million)	
Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)
371.5	9	Cotton	...	...
257.6	1	Organic chemicals	8.0	-31
204.9	26	Residues, wastes of food industry, animal fodder	...	...
197.0	23	Edible vegetables and certain roots and tubers	...	...
153.2	46	Plastics and articles thereof	15.9	10
104.0	-15	Manmade filaments	...	...
95.6	25	Tanning, dyeing extracts, tannins, derivs, pigments, etc.	...	...
79.5	-1	Coffee, tea, mate and spices	...	...
77.1	43	Manmade staple fibres	...	...
66.0	21	Machinery, nuclear reactors, boilers, etc.	42.4	14
		Electrical, electronic equipment	44.1	78
		Commodities not elsewhere specified	12.2	34
		Carpets and other textile floor coverings	8.6	5
		Paper and paperboard, articles of pulp, paper and board	8.3	0
		Miscellaneous chemical products	8.0	5
		Iron and steel	7.3	-3
		Articles of iron or steel	7.3	26
1606.26 (74%)		Top 10 Products (percentage of total export)	162 (62%)	

Source: International Trade Centre Database

In 2014, India's export to Turkey was valued at approximately US\$ 5.6 billion and Pakistan's export to Turkey was approximately US\$ 391 million. Following this FTA, it is expected that India's export to Turkey may get affected in some product segments. Though Pakistan's export similarity and complementarity are moderate (see Table 1.3), trade diversion in favour of Pakistan as well as Turkey may not be ruled out.

India is the 6th and 10th largest importing sources for Pakistan and Turkey, respectively. Products like mineral fuels, oils, distillation products; vehicles other than railway, tramway; machinery, nuclear reactors, boilers; manmade filaments; plastics and articles thereof; organic chemicals; aircraft, spacecraft, and parts thereof; cereals; and manmade staple fibres are major export items from India to Turkey. If we compare the data shown in Table 1.2, India and Pakistan compete with each other in three of those products.

Additionally, if we look at export growth trend of these products during 2010 to 2014, 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 Export to Turkey (Export in 2014: US\$ 5603.1 million)			Pakistan's Export to Turkey (Export in 2014: US\$ 391.08 million)	
Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)
1545.1	49	Mineral fuels, oils, distillation products, etc	...	...
579.5	24	Vehicles other than railway, tramway	...	...
362.2	45	Machinery, nuclear reactors, boilers, etc	...	...
337.0	39	Manmade filaments	...	...
287.7	11	Plastics and articles thereof	37.8	-19
236.2	4	Organic chemicals	...	...
209.7	500	Aircraft, spacecraft, and parts thereof	...	...
208.7	191	Cereals	12.141	-38
206.3	3	Manmade staple fibres	12.627	-18
204.3	29	Tanning, dyeing extracts, tannins, derivs, pigments, etc.		
		Cotton	185.1	-18
		Beverages, spirits and vinegar	43.8	7
		Raw hides and skins (other than furskins) and leather	15.3	-6
		Other made textile articles, sets, worn clothing etc	13.9	23
		Carpets and other textile floor coverings	12.0	4
		Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	11.6	29
		Articles of apparel, accessories, knit or crochet	5.6	-5
4176.8 (75%)		Top 10 Products (percentage of total export)	349.9 (89%)	

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 0.06 and 0.11 and shows no tendency to increase over the years indicating stable similarity of export of India and Turkey to Pakistan. This means that at the aggregate level and to some extent, India and Turkey were competing in Pakistan's market but there is stability in that competition. On the other hand, the level of export similarity between India and Pakistan in Turkey's market was also low (Table 1.3B).

Similar to the results of the Finger-Kreinin Index, Table 1.3C shows that during 2011 to 2014 the RECPI of India with Pakistan were low, indicating low and stable competition between India and Turkey in Pakistan's market. On the other hand, India's RECPI with Turkey is low and stable, indicating that the level of competition is also low between India and Pakistan in Turkey's market (Table 1.3D).

Table 1.3: FKI and RECPI among India-Pakistan-Turkey (2011-14)									
A. India's FKI with Pakistan					B. India's FKI with Turkey				
Competitor	2011	2012	2013	2014	Competitor	2011	2012	2013	2014
Turkey	0.09	0.06	0.08	0.11	Pakistan	0.10	0.09	0.08	0.08
C. India's RECPI with Pakistan					D. India's RECPI with Turkey				
Competitor	2011	2012	2013	2014	Competitor	2011	2012	2013	2014
Turkey	0.01	0.00	0.00	0.01	Pakistan	0.02	0.01	0.01	0.00

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 Pakistan and Turkey's products will receive reciprocal preferential treatment in their respective market. India and Turkey do not have any bilateral trade agreements. On the other hand, India is connected with Pakistan through the agreement on South Asian Free Trade Area. In the wake of expected changes in trade in goods, services as well as investment relationship among India, Pakistan and Turkey, India should put more emphasis on starting negotiation with Turkey to strengthen its supply chain. Turkey is also a gateway to Europe. The threat factor is: India may lose its market share in favour of Pakistan as well as Turkey in some product segments of their respective market.

2. Malaysia-EU FTA likely to conclude soon

The agreement is the country's latest bilateral initiative with the European Union (EU). International Trade and Industry Minister II Datuk Seri Ong Ka Chuan, who disclosed this, said the FTA would boost the national economy as exports to European countries like Germany and Italy would be free of taxes...With tax-free exports and imports of goods from EU, which represents a 500 million-strong market from 28 countries, Ong said he expected increased foreign investments following the agreement. As of now, there are more than 80 types of goods subjected to taxation. Once the tax barriers are removed, job opportunities will increase to give these economies a much-needed boost.

(<http://www.thestar.com.my/news/nation/2016/02/01/msiaeu-fta-likely-to-conclude-soon/>)

CUTS Comments

This trade agreement between EU and Malaysia is likely to have some impact on India's export. Currently, India and EU are in competition (see Table 2.3). Trade statistics reveal that in 2014 the total value of India's export to the Malaysia was approximately US\$ 4.6 billion, whereas that of the EU to Malaysia was approximately US\$ 18.6 billion. This shows that at the moment the EU is better positioned in Malaysia's market.

As shown in Table 2.1, India and the EU are competing in some product segments (in their top 10 exports) such as mineral fuels, oils, distillation products, etc; machinery, nuclear reactors, boilers, etc.; and electrical, electronic equipment. However, most of these competing product segments, the annual export growth of India during 2009-2014 was greater than that of the EU, the new trade equation may change the growth momentum in favour of the EU and further strengthen its position in these product segments.

Table 2.1				
India's Export to Malaysia (Export in 2014: US\$ 4642.23 million)			EU's Export to Malaysia (Export in 2014: US\$ 18578.18 million)	
Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)
1076.0	42	Mineral fuels, oils, distillation products, etc.	135.0	2.3
509.0	30	Organic chemicals	...	...
403.4	19	Meat and edible meat offal	...	...
321.1	29	Machinery, nuclear reactors, boilers, etc.	3547.2	7.0
248.9	-60	Ships, boats and other floating structures	...	...
190.7	9	Cereals	...	...
152.3	7	Electrical, electronic equipment	4479.5	-0.5
128.2	28	Articles of apparel, accessories, not knit or crochet	...	...
111.9	-4	Copper and articles thereof	...	...
108.9	-8	Coffee, tea, mate and spices	...	...
		Aircraft, spacecraft, and parts thereof	2076.1	26.5
		Vehicles other than railway, tramway	1351.0	9.5
		Optical, photo, technical, medical apparatus, etc.	885.2	10.1
		Pharmaceutical products	591.3	12.6
		Plastics and articles thereof	483.3	11.1
		Miscellaneous chemical products	343.1	1.6
		Iron and steel	319.6	-0.3
3250.43 (70%)		Top 10 Products (percentage of total export)	14211.42 (76%)	

Source: International Trade Centre Database

At the same time, in 2014, India's export to the EU was valued at approximately US\$ 51.6 billion, whereas that of Malaysia to the EU was approximately US\$ 22.3 billion. It is expected that India's export interest may get further affected as a result of EU-Malaysia trade agreement.

In 2014, India was the 12th largest source of import for Malaysia and 24th largest source of import for the EU. Products like mineral fuels, oils, distillation products; pearls, precious stones, metals, coins; articles of apparel, accessories, not knit or crochet; articles of apparel, accessories, knit or crochet; organic chemicals; machinery, nuclear reactors, boilers; vehicles other than railway, tramway; electrical, electronic equipment; articles of iron or steel; and footwear, gaiters and the like, parts thereof are major exports from India to the EU.

If we compare the data from Table 2.2, India and Malaysia largely compete with each other in products such as machinery, nuclear reactors, boilers, etc; vehicles other than railway, tramway; and electrical, electronic equipment. At present the competition between India and Malaysia in the EU's market is moderate.

It is also observed that in products like mineral fuels, oils, distillation products, etc; pearls, precious stones, metals, coins, etc.; articles of apparel, accessories, not knit or crochet; articles of apparel, accessories, knit or crochet; organic chemicals; articles of iron or steel; and footwear, gaiters and the like, parts thereof, India has an edge over Malaysia. Because of this advantage, it has the potential to improve its overall position in EU's market.

Table 2.2				
India's Export to EU 28 (Export in 2014: US\$ 51569.53 million)			Malaysia's Export to EU 28 (Export in 2014: US\$ 22289.92 million)	
Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)
4972.4	-4	Mineral fuels, oils, distillation products, etc.	...	...
3767.8	13	Pearls, precious stones, metals, coins, etc.	...	...
3479.3	7	Articles of apparel, accessories, not knit or crochet	...	...
3309.8	14	Articles of apparel, accessories, knit or crochet	...	...
3202.4	14	Organic chemicals	...	...
2762.8	14	Machinery, nuclear reactors, boilers, etc.	3560.7	-4.6
2259.8	-1	Vehicles other than railway, tramway	318.5	5.9
2129.3	-6	Electrical, electronic equipment	8253.5	2.1
1899.6	17	Articles of iron or steel	...	...
1889.7	11	Footwear, gaiters and the like, parts thereof	...	...
		Animal, vegetable fats and oils, cleavage products, etc.	2050.5	5.2
		Optical, photo, technical, medical, etc apparatus	1665.7	24.3
		Rubber and articles thereof	1450.9	-5.4
		Miscellaneous chemical products	877.4	2.6
		Plastics and articles thereof	464.5	1.4
		Furniture, lighting, signs, prefabricated buildings	403.7	-2.5
		Wood and articles of wood, wood charcoal	390.6	-4.6
29673.02 (58%)		Top 10 Products (percentage of total export)	19436.1 (87%)	

Source: International Trade Centre Database

The FKI in Table 2.3A varies between 0.14 and 0.18, indicating stable similarity of exports of India and the EU to Malaysia than that of India and Malaysia to the EU market. This means that at the aggregate level, India and EU's exports to Malaysia is to some extent more similar than that of India and Malaysia's to the EU's market.

Similar to the results of the Finger-Kreinin Index, Table 2.3C shows that during 2011-2014 the RECPI of India with Malaysia were moderate indicating that the degree of competition between India and the EU in the Malaysia's market is fluctuating, but there is not so clear indication whether India and Malaysia are competing in EU's market (Table 2.2).

Table 2.3: FKI and RECPI among India-Malaysia-EU 28 (2011-14)									
A. India's FKI with Malaysia					B. India's FKI with EU 28				
Competitor	2011	2012	2013	2014	Competitor	2011	2012	2013	2014
EU 28	0.14	0.15	0.18	0.16	Malaysia	0.13	0.12	0.12	0.12
C. India's RECPI with Malaysia					D. India's RECPI with EU 28				
Competitor	2011	2012	2013	2014	Competitor	2011	2012	2013	2014
EU 28	0.12	0.17	0.18	0.11	Malaysia	0.03	0.02	0.03	0.03

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

Food for Thought

India is yet to conclude its trade agreement with the EU. On the other hand, India and Malaysia are connected with each other through a comprehensive economic cooperation agreement. Therefore, India should put more emphasis on strengthening its supply chain with the EU countries by concluding its trade agreement with the EU.

3. Bangladesh: FTA with Malaysia this year

Bangladesh to sign a free trade agreement with Malaysia this year to boost bilateral trade, Commerce Minister Tofail Ahmed said yesterday. Bangladesh's exports to Malaysia will go up if Dhaka is granted duty-free market access for garments, pharmaceuticals and vegetables, Ahmed said. There is a trade deficit with Malaysia now, and the process to sign an FTA with Kuala Lumpur is underway.

(<http://www.thedailystar.net/business/fta-malaysia-year-tofail-203815>)

CUTS Comments

The FTA between Bangladesh and Malaysia is likely to have moderate impact on India's export basket. Though at present competition is moderately affecting India the situation may further change in the favour of Bangladesh and Malaysia in the long-run.

Trade statistics reveal that in 2014 the total value of India's export to Malaysia was approximately US\$ 4.6 billion. In the same year, the value of Bangladesh's export to Malaysia was approximately US\$ 114.59 million.

As shown in Table 3.1, India and Bangladesh are competing in two product segments (in their top 10 exports) such as machinery, nuclear reactors, boilers, et.c; and articles of apparel, accessories, not knit or crochet.

Also, in the competing product segments the annual growth of export of Bangladesh during 2010-2014 was higher than that of India. However, there are products like mineral fuels, oils, distillation products, etc.; organic chemicals; meat and edible meat offal; ships, boats and other floating structures; cereals; electrical, electronic equipment; copper and articles thereof; and coffee, tea, mate and spices where India is likely to remain a leading player as compared to Bangladesh.

Table 3.1				
India's Export to Malaysia (Export in 2014: US\$ 4642.23 million)			Bangladesh's Export to Malaysia (Export in 2014: US\$114.59 million)	
Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)
1076.0	42	Mineral fuels, oils, distillation products, etc	...	...
509.0	30	Organic chemicals	...	...
403.4	19	Meat and edible meat offal	...	...
321.1	29	Machinery, nuclear reactors, boilers, etc.	4.0	64.0
248.9	-60	Ships, boats and other floating structures	...	...
190.7	9	Cereals	...	...
152.3	7	Electrical, electronic equipment	...	...
128.2	28	Articles of apparel, accessories, not knit or crochet	42.2	148.0
111.9	-4	Copper and articles thereof		
108.9	-8	Coffee, tea, mate and spices		
		Articles of apparel, accessories, knit or crochet	34.8	118.0
		Edible vegetables and certain roots and tubers	14.4	40.0
		Vegetable, fruit, nut, etc food preparations	3.7	68.0
		Tobacco and manufactured tobacco substitutes	1.9	2.0
		Fish, crustaceans, molluscs, aquatic invertebrates, nes	1.6	-24.0
		Commodities not elsewhere specified	1.6	-2.0
		Other made textile articles, sets, worn clothing etc.	1.3	8.0
		Cereal, flour, starch, milk preparations and products	1.2	20.0
3250.43 (70%)		Top 10 Products (percentage of total export)	106.59 (93%)	

Source: International Trade Centre Database

At the same time, when we talk about export from India to Bangladesh, in 2014, it was valued at approximately US\$ 6.3 billion, whereas that of Malaysia to Bangladesh was approximately US\$ 1.23 billion. It is expected that Bangladesh's import from India may further get affected in some product segments.

India is the 2nd and 12th largest import source for Bangladesh and Malaysia, respectively. As shown in Table 3.2, India and Malaysia are competing in four product segments (in their top 10 exports) such as cotton; machinery, nuclear reactors, boilers, etc; mineral fuels, oils, distillation products, etc.; and electrical, electronic equipment. Currently, India is better positioned than Malaysia in these product segments.

It is also observed that in products like cereals; iron and steel; manmade staple fibres; residues, wastes of food industry, animal fodder; and tanning, dyeing extracts, tannins, derivs, pigments etc., India has an edge over Malaysia. Because of this advantage, it has the potential to improve its overall position in Bangladesh's market.

Table 3.2				
India's Export to Bangladesh (Export in 2014: US\$ 6255.24 million)			Malaysia's Export to Bangladesh (Export in 2014: US\$ 1229.34 million)	
Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)	Sectors	Export Value in 2014 (US\$ mn)	Average Annual Growth (2010-2014, %)
1647.1	18	Cotton	34.7	2.0
800.2	51	Cereals	...	...
590.5	26	Vehicles other than railway, tramway	...	...
333.7	36	Machinery, nuclear reactors, boilers, etc.	105.9	4.0
285.9	64	Iron and steel	...	...
223.3	49	Manmade staple fibres	...	...
199.1	-2	Residues, wastes of food industry, animal fodder	...	...
181.0	14	Mineral fuels, oils, distillation products	344.6	-14.0
161.4	53	Tanning, dyeing extracts, tannins, derivs, pigments, etc.	...	...
155.0	29	Electrical, electronic equipment	26.7	-19.0
		Animal, vegetable fats and oils, cleavage products, etc.	250.7	18.0
		Plastics and articles thereof	92.2	4.0
		Pearls, precious stones, metals, coins, etc	57.0	1811.0
		Iron and steel	36.2	-8.0
		Aluminium and articles thereof	29.4	-2.0
		Dairy products, eggs, honey, edible animal product, nes	22.5	65.0
4577.3 (73%)		Top 10 Products (percentage of total export)	999.9 (81%)	

Source: International Trade Centre Database

There was moderate similarity of export from India and Malaysia to Bangladesh and that of India to Malaysia. The FKI in Table 3.3A varied between 0.09 and 0.14. This means that at the aggregate level India and Malaysia's exports are to some extent similar and is increasing. On the other hand, the level of export similarity between India and Bangladesh in Malaysia's market is low in 2011 (further data are not available).

Furthermore, the RECPs between India and Malaysia and that between India and Bangladesh indicate that export competitiveness was moderate for India in Bangladesh's market (see Table 3.3C and D).

Table 3.3: FKI and RECPI among India-Bangladesh-Malaysia (2011-14)									
A. India's FKI with Bangladesh					B. India's FKI with Malaysia				
Competitor	2011	2012	2013	2014	Competitor	2011	2012	2013	2014
Malaysia	0.09	0.14	0.11	0.12	Bangladesh	0.04	NA	NA	NA
C. India's RECPI with Bangladesh					D. India's RECPI with Malaysia				
Competitor	2011	2012	2013	2014	Competitor	2011	2012	2013	2014
Malaysia	0.19	0.12	0.07	0.05	Bangladesh	0.00	NA	NA	NA

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 Bangladesh and Malaysia'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, Bangladesh and Malaysia, India should put more emphasis to undertake additional trade facilitation measures to improve its supply chain as well as trade competitiveness.