

# Dossier on Preferential Trade Agreements

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### 1. Vietnam and South Korea Complete Free Trade Agreement

South Korea and Vietnam have concluded negotiations for a bilateral free trade agreement (FTA) at a signing ceremony in Busan. The FTA will remove import tariffs on more than 90 per cent of all products. The FTA is expected to almost triple bilateral trade between the two countries to US\$70bn by 2020. In the first 10 months of 2014, South Korea exported US\$17.7bn in goods to Vietnam and imported US\$5.9bn in goods from the Southeast Asian country.

The FTA negotiations began in August 2012 but saw delays over issues such as fishery products. While some technical issues still remain, the agreement is expected to be signed into law in early 2015. South Korea is currently Vietnam's largest foreign investor, with US\$37bn in investments in 2013.

The country is also Vietnam's third largest trading partner, second largest source of tourists, and second largest provider of Official Development Assistance. South Korean exports to Vietnam have grown rapidly from US\$7.16bn in 2009 to US\$21.8bn in 2013.

[\(http://www.vietnam-briefing.com/news/vietnam-south-South-Korea-complete-free-trade-agreement.html/\)](http://www.vietnam-briefing.com/news/vietnam-south-South-Korea-complete-free-trade-agreement.html/)

#### *CUTS Comments*

The FTA between Vietnam and South Korea 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 South Korea in Vietnam's market and that of India and Vietnam in South Korea's market are competing on relatively less number of products. Though, the competition on account of the Vietnam-South Korea FTA may not be so detrimental to India in the short-run (see Table 1.3), the situation may change in the long-run.

Trade statistics reveal that in 2013 the total value of India's export to Vietnam was approximately US\$6bn. In the same year, total value of South Korea's export to Vietnam was approximately US\$21bn: more than three times that of India's export to Vietnam. Thus, South Korea is enjoying a significant advantage in Vietnam's market but that is mostly in non-competing product segments.

As shown in Table 1.1, India and South Korea are competing in three product segments (among their top 10 exports to Vietnam) such as iron and steel; plastics and articles thereof; and machinery, nuclear reactors, boilers, etc. Currently, South Korea is better positioned than India in these products and as a result of this FTA it may further strengthen its position in this market.

However, in the competing product segments, annual growth rate of some export items of South Korea during 2009-2013 was less than that of India. On the other hand, there are products like meat and edible meat offal; fish, crustaceans, molluscs, aquatic invertebrates, nes; cotton; cereals; coffee, tea, mate and spices; pharmaceutical products, where, as compared to South Korea, India is likely to remain a leading player in the Vietnam market.

<b>Table 1.1</b>				
<b>India's Export to Vietnam (2013: US\$ 5987.61mn)</b>		<b>South Korea's Export to Vietnam (2013: US\$ 21087.58mn)</b>		
<b>Export Value (2013; US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>	<b>Sectors</b>	<b>Export Value (2013; US\$mn)</b>	<b>Annual growth (2009- 2013, %)</b>
1919.52	65	Meat and edible meat offal	...	...
1011.10	135	Fish, crustaceans, molluscs, aquatic invertebrates, nes	...	...
432.12	51	Iron and steel	1082.80	11
341.83	40	Cotton	...	...
335.03	-9	Residues, wastes of food industry, animal fodder	...	...
299.03	32	Cereals	...	...
188.80	102	Coffee, tea, mate and spices	...	...
167.98	42	Plastics and articles thereof	1550.52	26
157.11	15	Pharmaceutical products	...	...
141.63	31	Machinery, nuclear reactors, boilers, etc.	1918.44	28
		Electrical, electronic equipment	8489.66	99
		Knitted or crocheted fabric	941.82	13
		Mineral fuels, oils, distillation products, etc.	824.25	6
		Vehicles other than railway, tramway	653.89	-13
		Optical, photo, technical, medical, etc. apparatus	642.27	51
		Manmade filaments	478.85	26
		Articles of iron or steel	449.96	27
<b>4994.15 (83%)</b>		<b>Top 10 Products (Percentage of Total Export)</b>	<b>17032.47 (81%)</b>	

*Source: International Trade Centre Database*

In 2013, India's export to South Korea was valued at approximately US\$4.5bn and Vietnam's export to South Korea was approximately US\$7.2bn. Following this FTA between Vietnam and South Korea, it is expected that India's export to South Korea may get affected in some product segments. Though Vietnam's export similarity and complementarity are low (see Table 1.3), trade diversion in favour of Vietnam cannot be ruled out.

India is the 11<sup>th</sup> and 18<sup>th</sup> largest import sources for Vietnam and South Korea, respectively. Products like mineral fuels, oils, distillation products, etc.; iron and steel; aluminum and articles thereof; organic chemicals; residues, wastes of food industry, animal fodder; cereals; cotton; machinery, nuclear reactors, boilers, etc.; oil seed, oleagic fruits, grain, seed, fruit, etc., nes; lead and articles thereof are major export items from India to South Korea. If we compare the data shown in Table 1.2, India and Vietnam compete with each other in some of those products, especially in mineral fuels, oils, distillation products, etc.; machinery, nuclear reactors, boilers, etc.; and lead and articles thereof.

Additionally, if we look at export growth trend of these products during 2009 to 2013, it indicates that in most of these items Vietnam is relatively better positioned. This situation may not change immediately after this FTA but may affect India's trade in the long-run. In order to strengthen its position in these markets, India requires necessary measures to maintain and increase its trade competitiveness in these products.

<b>Table 1.2</b>				
<b>India's Export to South Korea (2013: US\$ 4495.54mn)</b>			<b>Vietnam's Export to South Korea (2013: US\$ 7175.19mn)</b>	
<b>Export Value (2013; (US\$m)</b>	<b>Annual Growth (2009- 2013, %)</b>	<b>Sectors</b>	<b>Export Value (2013 (US\$m)</b>	<b>Annual Growth (2009- 2013, %)</b>
1008.82	-14	Mineral fuels, oils, distillation products, etc.	1056.34	16
487.14	28	Iron and steel	...	...
395.43	44	Aluminum and articles thereof	...	...
394.79	14	Organic chemicals	...	...
301.09	34	Residues, wastes of food industry, animal fodder	...	...
297.09	435	Cereals	...	...
247.33	3	Cotton	...	...
133.81	6	Machinery, nuclear reactors, boilers, etc.	144.03	36
108.98	40	Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	...	...
92.93	26	Lead and articles thereof	10.02	120
		Articles of apparel, accessories, not knit or crochet	1307.13	72
		Electrical, electronic equipment	1081.36	49
		Footwear, gaiters and the like, parts thereof	377.26	35
		Fish, crustaceans, molluscs, aquatic invertebrates, nes	372.58	13
		Articles of apparel, accessories, knit or crochet	366.32	54
		Wood and articles of wood, wood charcoal	230.16	45
		Furniture, lighting, signs, prefabricated buildings	178.27	24
		Other made textile articles, sets, worn clothing	141.59	26
<b>3467.40 (77%)</b>		<b>Top 10 Products (Percentage of Total Export)</b>	<b>5255.03 (73%)</b>	

*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. 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 0.04 and 0.07 and shows an increasing trend over the years indicating some similarity of export of India and South Korea to Vietnam. This means that at the aggregate level and to some extent India and South Korea were competing in Vietnam's market. On the other hand, the level of competition between India and Vietnam in South Korea's market was moderate but increasing (Table 1.3B).

Similar to the results of the FKI, Table 1.3C shows that during 2009 to 2013 the RECPI of India with South Korea were low but more or less stable indicating that a low degree of competition between India and South Korea in Vietnam's market. The same was true for India and Vietnam in South Korea's market (Table 1.3D).

<b>Table 1.3: FKI and RECPI among India-Vietnam-South Korea (2009-13)</b>											
<b>A. India's FKI with South Korea</b>						<b>B. India's FKI with Vietnam</b>					
Destination	2009	2010	2011	2012	2013	Destination	2009	2010	2011	2012	2013
Vietnam	0.039	0.053	0.070	0.074	0.074	South Korea	0.122	0.105	0.107	0.100	0.089
<b>C. India's RECPI with South Korea</b>						<b>D. India's RECPI with Vietnam</b>					
Competitor	2009	2010	2011	2012	2013	Competitor	2009	2010	2011	2012	2013
South Korea	0.01	0.01	0.01	0.02	0.07	Vietnam	0.112	0.052	0.048	0.048	0.022
<i>Source: CUTS calculation using data from UN Comtrade via WITS 6-Digit and TradeSift software</i>											

### ***Food for Thought***

*As a result of this FTA, a wide range of South Korean products will receive preferential treatment in Vietnam. Key business areas expected to be affected include automotive, electronics, and textiles sectors.*

*India and Vietnam do not have any bilateral trade agreement but Vietnam is part of the Association of Southeast Asian nations with which India has a preferential trade agreement, and bilateral trade is not substantial, as compared to their trade potential. On the other hand, India has a Comprehensive Economic Partnership Agreement (CEPA) with South Korea.*

*In the wake of expected changes in trade in goods, services as well as investment relationship among India, Vietnam and South Korea, India should broaden its bilateral trade relations with Vietnam and South Korea to further strengthen its position in these markets.*

## **2. China and Australia Conclude Landmark FTA Negotiations**

On November 17, 2014, China and Australia completed their negotiations for a China-Australia FTA by signing a Declaration of Intent which contained the essential elements of the free trade deal and commits both countries to draft the legal text of the agreement for signature at a later date. This agreement ends almost a decade of free trade negotiations between China and Australia. This FTA is significant because it will initially lower and ultimately eliminate tariffs on a wide range of exports between the two countries boosting bilateral trade between the world's second largest economy and a significant US free trade partner in Asia.

Australian Prime Minister, Tony Abbott, described this FTA as the best ever between China and a Western country. It builds on Australia's trade deals with South Korea and Japan which account for Australia's three largest export markets. In the short term, This will consolidate Australia's competitive position in the resources and energy market by phasing-in zero tariffs on products including iron ore, coal, gold, and crude petroleum oils which comprise four of the top five leading exports (by value) from Australia to China.

This FTA will also reduce and eliminate tariffs on a wide range of Australia-produced agricultural products, foodstuffs and wine as Australia attempts to transition in the longer term to what commentators have described as a 'mining to dining' export economy.

[\(<http://www.natlawreview.com/article/china-and-australia-conclude-landmark-free-trade-agreement-negotiations>\)](http://www.natlawreview.com/article/china-and-australia-conclude-landmark-free-trade-agreement-negotiations)

### ***CUTS Comments***

The FTA between China and Australia is likely to have substantial impact on India's export. India and Australia are in deep competition in China's market (see Table 2.3). Trade statistics reveal that in 2013 the total value of India's export to China was approximately US\$16.42bn, whereas that of Australia to China was approximately US\$87.3bn. This shows that at the moment Australia is better positioned in the Chinese market and the new FTA will strengthen this position further.

As shown in Table 2.1, India and Australia are competing in some product segments (in their top 10 exports) such as cotton; copper and articles thereof; ores, slag and ash; and mineral fuels, oils, distillation products, etc. However, in two out of these four competing product segments the annual export growth of India during 2009-2013 was greater than that of Australia.

<b>Table 2.1</b>				
<b>India's Export to China (2013: US\$16416.83mn)</b>			<b>Australia's Export to China (2013: US\$87311.42mn)</b>	
<b>Export Value (2013; (US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>	<b>Sectors</b>	<b>Export Value (2013; (US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>
4843.1	59	Cotton	1674.3	91
1959.0	30	Copper and articles thereof	2281.4	23
1742.6	-25	Ores, slag and ash	56160.5	27
1046.0	22	Organic chemicals	...	...
739.7	67	Mineral fuels, oils, distillation products, etc.	9711.2	18
708.5	30	Salt, sulphur, earth, stone, plaster, lime and cement	...	...
687.6	34	Plastics and articles thereof	...	...
508.2	12	Machinery, nuclear reactors, boilers, etc.	...	...
373.0	-10	Iron and steel	...	...
345.8	22	Animal, vegetable fats and oils, cleavage products, etc.	...	...
		Pearls, precious stones, metals, coins, etc.	7789.2	384
		Wool, animal hair, horsehair yarn and fabric thereof	1877.3	15
		Meat and edible meat offal	1191.2	79
		Raw hides and skins (other than furskins) and leather	864.7	21
		Cereals	759.8	37
		Oil seed, oleagic fruits, grain, seed, fruit, etc., nes	672.6	141
<b>12953.5 (79%)</b>		<b>Top 10 Products (Percentage of Total Export)</b>	<b>82982.27 (95%)</b>	

*Source: International Trade Centre Database*

At the same time, in 2013, India's export to Australia was valued at approximately US\$2.4bn, whereas that of China to Australia was approximately US\$37.6bn. It is expected that Australia's imports from India may get affected further as a result of China-Australia FTA.

In 2013, India was the 27<sup>th</sup> largest source of import for China and 21<sup>st</sup> largest source of import for Australia. Products like pearls, precious stones, metals, coins, etc.; vehicles other than railway, tramway; pharmaceutical products; other made textile articles, sets, worn clothing etc.; articles of iron or steel; electrical, electronic equipment; and machinery, nuclear reactors, boilers, etc. are major exports from India to Australia.

If we compare the data from Table 2.2, India and China largely compete with each other in products such as vehicles other than railway, tramway; articles of iron or steel; electrical, electronic equipment; machinery, nuclear reactors, boilers, etc.; articles of apparel, accessories, not knit or crochet.

Also, if we look at export growth trend of these products during 2009-2013, it indicates that in most of these items, India is relatively better positioned. This situation may not change immediately after the signing of this FTA but it may affect India's trade in the long-run.

It was also observed that in products like pearls, precious stones, metals, coins, etc.; pharmaceutical products; other made textile articles, sets, worn clothing, etc.; optical, photo, technical, medical apparatus, etc.; articles of leather, animal gut, harness, travel goods, India has an edge over China. Because of this advantage, it has the potential to improve its overall position in the Australian market.

<b>Table 2.2</b>				
<b>India's Export to Australia (2013: US\$2397.71mn)</b>			<b>China's Export to Australia (2013: US\$37554.16mn)</b>	
<b>Export Value (2013; US\$m)</b>	<b>Annual Growth (2009- 2013, %)</b>	<b>Sectors</b>	<b>Export Value (2013; US\$m)</b>	<b>Annual Growth (2009- 2013, %)</b>
324.6	9	Pearls, precious stones, metals, coins, etc.	...	...
258.7	45	Vehicles other than railway, tramway	993.2	19
178.4	31	Pharmaceutical products	...	...
118.1	24	Other made textile articles, sets, worn clothing, etc.	...	...
103.5	33	Articles of iron or steel	2245.8	27
97.6	-10	Electrical, electronic equipment	5535.9	9
96.1	3	Machinery, nuclear reactors, boilers, etc.	7277.6	15
77.3	16	Articles of apparel, accessories, not knit or crochet	1609.4	13
69.3	30	Optical, photo, technical, medical apparatus, etc.	...	...
63.3	13	Articles of leather, animal gut, harness, travel goods	...	...
		Furniture, lighting, signs, prefabricated buildings	2895.6	24
		Articles of apparel, accessories, knit or crochet	2048.1	14
		Plastics and articles thereof	1466.7	23
		Railway, tramway locomotives, rolling stock, equipment	1003.3	52
		Toys, games, sports requisites	860.9	9
<b>1386.9 (58%)</b>		<b>Top 10 Products (Percentage of Total Export)</b>	<b>25936.4 (69%)</b>	

*Source: International Trade Centre Database*

The FKI in Table 2.3A varies between 0.13 and 0.49 and shows a decreasing trend over the years, indicating less similarity of exports of India and China to Australia than that of India and Australia to the Chinese market. This means that at the aggregate level similarity of India and China's exports to Australia is decreasing and that of India and Australia's exports is increasing in the Chinese market. On the other hand, the level of competition between India and Australia in the Chinese market was moderate but increasing (Table 2.3B).

Similar to the results of the FKI, Table 1.3C shows that during 2009-2013 the RECPI of India with China were substantially high and increasing indicating that the degree of competition between India and China in the Australian market was high and increasing. The same was true for India and Australia in the Chinese market (Table 2.3D).

Table 2.3: FKI and RECPI among India-China-Australia (2009-13)											
A. India's FKI with China						B. India's FKI with Australia					
Destination	2009	2010	2011	2012	2013	Destination	2009	2010	2011	2012	2013
Australia	0.488	0.390	0.293	0.205	0.132	China	0.209	0.206	0.230	0.214	0.233
C. India's RECPI with China						D. India's RECPI with Australia					
Competitor	2009	2010	2011	2012	2013	Competitor	2009	2010	2011	2012	2013
China	3.65	3.61	7.00	5.34	4.22	Australia	0.53	0.88	1.44	0.94	1.13

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

### ***Food for Thought***

*While India and Australia is negotiating a CEPA, India and China are yet to have one except that both are part of the Regional Comprehensive Economic Partnership (RCEP) of Asia and the Pacific. On the other hand, Australia is a member of the Trans-Pacific Partnership (TPP), which is negotiated by US, Canada and a number of countries in the Pacific Ocean. India has FTAs with many of those countries who are part of RCEP and TPP.*

*The impacts of these overlapping FTAs on future trade and investment relationship among India, Australia and China are expected to be significant. As shown in the Table 2.3 C&D, India is facing an increasing level of competition from both Australia and China.*

*Therefore, India should put more emphasis on completing its CEPA with Australia and should go for an ambitious RCEP agreement to secure better market access in future, which should help reducing its trade deficit with Australia and particularly with China.*

### **3. US, Sri Lanka Sign Trade & Investment Agreement to Boost Bilateral Trade**

Further expanding trade ties between two countries – Sri Lanka and the US inked a joint trade and investment agreement in Colombo. The agreement was signed during the Eleventh Joint Council Meeting under the US-Sri Lanka Trade and Investment Framework Agreement (TIFA) in Colombo during October 14-16, 2014.

Sri Lanka's Industry and Commerce Minister Rishad Bathiudeen signed the agreement on behalf of Sri Lanka while the US Trade Representative for South and Central Asia Michael Delaney signed for the US. The goal of the TIFA Council meeting was to expand trade and investment between the US and Sri Lanka.



Expressing his views on the occasion, Minister Bathiudeen said that a rapid growth has been witnessed in bilateral ties between the US and Sri Lanka. Bilateral trade in goods has grown nearly 60 per cent year-over-year from June 2010 to June 2014, but the US believes more can be done to boost trade.

US Exports to Sri Lanka increased by 86 per cent during this period while Sri Lanka exports to US increased by 56 per cent. The Apparel Sector occupies a significant position among the exports made by Sri Lanka to the US. The US believes TIFA can play an important role to address and remove any impediments to expanded trade and investment.

([http://www.colombopage.com/archive\\_14B/Oct16\\_1413437340CH.php](http://www.colombopage.com/archive_14B/Oct16_1413437340CH.php))

### **CUTS Comments**

This FTA between US and Sri Lanka is likely to have some impacts on India's export basket. Both US and Sri Lanka will substantially reduce their tariffs on each other's products. Though at present competition is not so detrimental for India the situation may change in the long-run.

<b>Table 3.1</b>				
<b>India's Export to US (2013: US\$41956.73mn)</b>			<b>Sri Lanka's Export to US (2013: US\$82495mn)</b>	
<b>Export Value (2013; US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>	<b>Sectors</b>	<b>Export Value (2013; US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>
8546.5	16	Pearls, precious stones, metals, coins, etc.	37.9	-1
3747.2	79	Mineral fuels, oils, distillation products, etc.	...	...
3624.2	33	Pharmaceutical products	...	...
2284.6	23	Other made textile articles, sets, worn clothing	16.0	4
2122.6	128	Lac, gums, resins, vegetable saps and extracts	...	...
2057.8	8	Articles of apparel, accessories, not knit or crochet	886.7	5
1720.4	18	Machinery, nuclear reactors, boilers, etc.	32.2	51
1702.5	14	Organic chemicals	...	...
1603.3	7	Articles of apparel, accessories, knit or crochet	945.4	13
1494.8	18	Articles of iron or steel	...	...
		Pearls, precious stones, metals, coins, etc.	7789.2	384
		Wool, animal hair, horsehair yarn and fabric	1877.3	15
		Meat and edible meat offal	1191.2	79
		Raw hides and skins (other than furskins) and leather	864.7	21
		Cereals	759.8	37
		Oil seed, oleagic fruits, grain, seed, fruit, etc.	672.6	141
<b>28903.8 (69%)</b>		<b>Top 10 Products (Percentage of Total Export)</b>	<b>2363.9 (95%)</b>	

Source: International Trade Centre Database

Trade statistics reveal that in 2013 the total value of India's export from India to US was approximately US\$41.96bn. In the same year, the value of Sri Lanka's export to US was approximately US\$8.25bn.

As shown in Table 3.1, India and Sri Lanka are competing in five product segments (in their top 10 exports) such as pearls, precious stones, metals, coins, etc.; other made textile articles, sets, worn clothing; articles of apparel, accessories, not knit or crochet; machinery, nuclear reactors, boilers, etc.; articles of apparel, accessories, knit or crochet. India is better positioned than Sri Lanka in all of them.

Also, in the competing product segments the annual growth of export of India during 2009-2013 was higher than that of Sri Lanka. There are products like mineral fuels, oils, distillation products, etc.; pharmaceutical products; lac, gums, resins, vegetable saps and extracts; organic chemicals; articles of iron or steel, where India is likely to remain a leading player as compared to Sri Lanka.

At the same time, when we talk about export from India to Sri Lanka, in 2013, it was valued at approximately US\$4.75bn, whereas that of US to Sri Lanka was approximately US\$313.54mn. It is expected that Sri Lanka's import from India may get affected in some product segments.

<b>India's Export to Sri Lanka (2013: US\$4753.97mn)</b>		<b>US' Export to Sri Lanka (2013: US\$313.54mn)</b>		
<b>Export Value (2013; (US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>	<b>Sectors</b>	<b>Export Value (2013; (US\$mn)</b>	<b>Annual Growth (2009- 2013, %)</b>
930.2	404	Aircraft, spacecraft, and parts thereof	10.6	-83
660.6	17	Mineral fuels, oils, distillation products, etc.	...	...
442.2	16	Vehicles other than railway, tramway	10.0	35
256.7	14	Cotton	...	...
232.6	73	Ships, boats and other floating structures	...	...
165.1	15	Pharmaceutical products	...	...
151.6	31	Machinery, nuclear reactors, boilers, etc.	28.2	23
149.9	11	Iron and steel	...	...
130.1	27	Electrical, electronic equipment	16.6	3
117.3	21	Knitted or crocheted fabric	...	...
		Cereals	54.1	-4
		Residues, wastes of food industry, animal fodder	23.6	86
		Optical, photo, technical, medical apparatus, etc.	21.5	12
		Dairy products, eggs, honey, edible animal products	14.4	258
		Plastics and articles thereof	13.5	7
		Manmade filaments	10.8	17
<b>3236.3 (68%)</b>		<b>Top 10 Products (Percentage of Total Export)</b>	<b>203.3 (65%)</b>	

*Source: International Trade Centre Database*

India is the largest import source for Sri Lanka and 10<sup>th</sup> largest import source for US. As shown in Table 3.2, India and US are competing in four product segments (in their top 10 exports) such as aircraft, spacecraft, and parts thereof; vehicles other than railway, tramway; machinery, nuclear reactors, boilers, etc.; electrical, electronic equipment. Currently, India is better positioned than US in these product segments. However, in competing product segments the annual export growth of India during 2009-2013 was greater than that of US.

It was also observed that in products like mineral fuels, oils, distillation products, etc.; cotton; ships, boats and other floating structures; pharmaceutical products; iron and steel; knitted or crocheted fabric, India has an edge over US. Because of this advantage, it has the potential to improve its overall position in Sri Lanka's market.

There was less similarity of export from India and US to Sri Lanka and that of India to US. The FKI in Table 3.3A varied between 0.10 and 0.15 and there was no tendency to increase over time. This means at the aggregate level India and US' exports are neither similar nor comparable in the Sri Lankan market. On the other hand, the level of export similarity between India and Sri Lanka in US' market was low and stable.

Furthermore, the RECPIs between India and US and that between India and Sri Lanka indicate that export competitiveness was very low for India with both US and Sri Lanka in their respective markets (see Table 3.3C and D).

Table 3.3: FKI and RECPI among India-US-Sri Lanka (2009-13)											
A. India's FKI with US						B. India's FKI with Sri Lanka					
Destination	2009	2010	2011	2012	2013	Destination	2009	2010	2011	2012	2013
Sri Lanka	0.15	0.13	0.12	0.10	0.10	USA	0.11	0.10	0.08	0.12	0.11
C. India's RECPI with US						D. India's RECPI with Sri Lanka					
Competitor	2009	2010	2011	2012	2013	Competitor	2009	2010	2011	2012	2013
USA	0.01	0.01	0.00	0.00	0.00	Sri Lanka	0.02	0.00	0.00	0.00	0.00

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

### ***Food for Thought***

*Though the potential is high and far from reaching, India and US do not have a bilateral trade and investment agreement. On the other hand, Sri Lanka is member of the South Asian Association for Regional Cooperation and India has FTA with Sri Lanka.*

*In the wake of expected changes in trade in goods, services as well as investment relationship among India, US and Sri Lanka (including due to expected impacts of the Trans-Pacific Partnership), India should start negotiations for a CEPA with US. It should also broaden its bilateral trade and investment relations with Sri Lanka to strengthen its position in that market.*