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MVIRDC WORLD TRADE CENTRE MUMBAI RESEARCH STUDY

INDIA AND FREE TRADE AGREEMENTS:

Opportunities and Challenges

October 2018

Bharat Ratna Sir M. Visvesvaraya

(15 September, 1860 - 14 April, 1962)

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Foreword

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The last two decades have witnessed a spurt in Free Trade Agreements (FTAs) around the world. With the slowdown in multilateral discussions, countries have increasingly turned towards bilateral and regional Free Trade Agreements, Comprehensive Economic Partnership Agreements, and Comprehensive Economic Cooperation Agreements, India has been no exception to this trend.

As of 2018, India had 16 such agreements in force. As part of its Look East Policy, India has in recent years entered into comprehensive agreements covering goods, services, and investment with several Asian partner countries, while several comprehensive agreements including the mega regional RCEP are currently under negotiation.

India's embrace of bilateralism and regionalism begs the basic question of how beneficial these agreements have been for the country. What is their impact? Have they been worth the negotiating effort? These are indeed difficult questions to answer. FTAs can impact a signatory country in many ways, depending on the scope of the agreements, the depth and breadth of the commitments undertaken and domestic preparedness and capacity.

Moreover, in addition to the standard gains due to increased market access and exports, gains may accrue through improvements in standards, technology transfer, increased investment flows, and access to quality intermediate imports. This study limits its assessment of the impact of India's FTAs to market access gains. It examines whether India has been able to obtain more predictable and increased market access from its FTA partners and whether it has been able to secure its interests in services.

The study convincingly illustrates that from a market access perspective, India has not gained from its FTAs. Although India's overall trade in goods has grown with FTA partner countries, the increase in imports has outweighed that in exports, causing the bilateral trade balance to deteriorate with FTA partners. For partner after partner country, India's market share has remained relatively low and stagnant and has even declined in some cases, suggesting that these FTAs have been of limited use. The study thus concludes that these FTAs are not sufficient in themselves to deliver market access gains.

This finding in turn raises the following questions; why is this the case for India and what are those sufficiency conditions that would enable India to realize benefits from its FTAs? The evidence presented highlights two main factors. The first is the design and implementation of the agreements. Utilization rates for India's FTAs are low, due to a failure to disseminate information especially to MSMEs, low preference margins for high export potential goods, placement of export potential items under the sensitive list, and high compliance costs, all of which undermine the value of the FTAs. India's FTAs provide limited scope for integration with partners through global value chains.

The second and perhaps more important reason is India's own supply side constraints and bottlenecks, i.e., its difficult regulatory environment, poor logistics quality, inadequate and inefficient trade infrastructure, and high transactions costs, among others, all of which hurt export competitiveness. Hence, if benefits are to be realized, the study suggests that India will need to negotiate new FTAs and renegotiate existing FTAs with a focus on extending preference margins and securing market access in tariff lines with high export potential, on opening up markets for high value-added manufacturing, lowering compliance burden, and increasing regulatory cooperation with its partners. Alongside, it

must complement its FTAs with trade policy reforms and measures which help diversify its export basket, reduce transactions costs, improve logistics and develop its export capacity and quality.

In the case of services, a sector where India is more competitive in the global market than in goods, the prevailing view has been that India would be able to trade off concessions made in goods trade through market access gains in services.

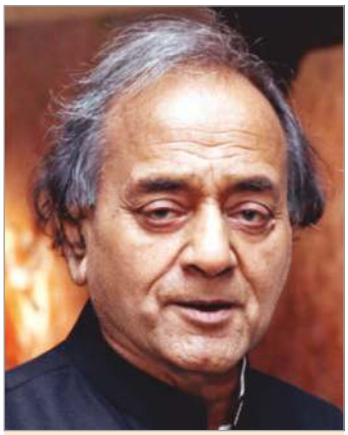
The study highlights several services where India is competitive and the significance of various modes for realizing India's export interests in services. However, the discussion indicates that the expected gains in services have not materialized.

This is mainly because numerous border and behind-the-border regulations exist in the services and modes of interest to India. These include immigration and labour market regulations which affect the entry and stay of service providers, cumbersome and non-transparent qualification and recognition requirements and procedures, biases in entry provisions against less skilled service providers or those moving in an individual capacity without associated commercial presence, and lack of regulatory harmonization with FTA partner countries. Such barriers undermine effective market access for Indian service exporters.

Thus, going forward, India needs to focus more on leveraging its competitive strengths in services through deeper and broader commitments which cover a wider range of service suppliers and modes, and by prioritizing regulatory cooperation. Once again, supporting domestic measures and trade policy initiatives are needed to expand capacity, raise quality and broad-base the services export basket.

In summary, India's FTAs have not been effective in at least the narrow sense of market access gains. A conducive regulatory environment and a more competitive economy are needed if India's FTAs are to yield results. A point left unresolved, however, is that while FTAs may not be sufficient to provide benefits to signatories, are they at all necessary in the first place.

Preface



Mr. Kamal Morarka
Chairman
MVIRDC World Trade Centre Mumbai

'India and Free Trade Agreements: Opportunities and Challenges' gauges the impact that Free Trade Agreements (FTAs) have had on India's interaction with the global economy. In doing so, it finds that free trade agreements are necessary but not sufficient conditions for enhancing export competitiveness. The report also attempts to identify 'sufficiency deficits' which can directly or indirectly affect the ability of an FTA to yield substantial gains for Indian exporters.

Global flows of goods, services, capital and people have always demanded their management. As flows have evolved in their scale and scope, so have the systems that manage them. From the Bretton Woods institutions of the post war era, to the Washington Consensus of the 1990s, each form of global economic governance has yielded both gains and challenges, sometimes in equal proportions.

One such recent change in international economic relations is the rise of bilateralism. Since the 1990s, Regional Trade Agreement (RTA) related notifications (per year) to the WTO have roughly tripled. India's trade policy has shown similar trends. As of 2018, 14 RTAs including bilateral and multilateral agreements have been notified to the WTO. In comparison this figure was close to 5 at the turn of the century.

However, this embrace of bilateralism has not yielded net positive outcomes for Indian exporters. In the context of goods trade, the available data tells a tale of limited gains; imports have accelerated at a pace greater than exports, there have been marginal changes in export basket composition and even in the presence of agreements, India accounts for a relatively low percentage of the partner country's imports.

While evaluating any impact of trade agreements on services exports is tortuous given the limited scope of data, it is possible to evaluate the benefits that could accrue from service trade agreements. This report discusses India's services exports and the possible role that trade agreements can play in expediting their flows.

At 40.6 percent, India's trade as a percentage of GDP ratio is relatively lower (when compared to the average for lower middle income countries i.e. 53.3 percent). Expanding India's external footprint can bring additional sources of growth for the economy. In this context, India's Free Trade Agreements (FTAs) serve as deeper determinants of the direction and intensity of flows (of goods, services, capital and people). It is hence vital to engage in a discussion surrounding their capacity to generate gains for exporters. This report attempts to stimulate such discussions.

Finally, I extend my warm gratitude to all the experts who have contributed to the report. In particular, I wish to thank Dr. Rupa Chanda, Professor, Indian Institute of Management, Bangalore for her inputs and invaluable guidance to our research team.

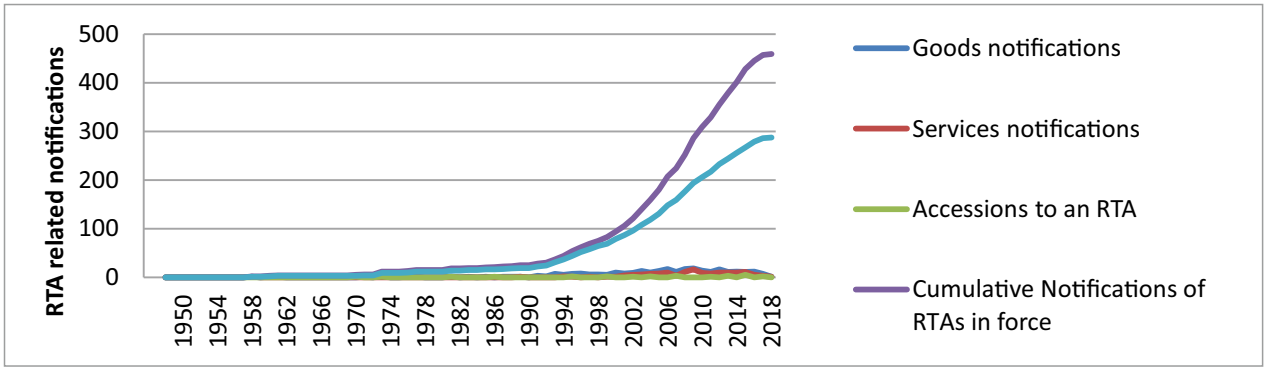
Free Trade Agreements and Trade in Goods: Necessary or Sufficient Conditions for Export Competitiveness?

Introduction

According to the latest IMF update for the WEO (June 2018)[1], while global economic recovery is expected to be on track at a steady 3.9%, the expansion could be riddled with uncertainty and uneven distributions of gains. In a global trading environment characterized by protectionist and retaliatory agendas, the importance of trade in the Indian growth narrative cannot be ignored. According to the World Bank, trade accounted for 40.6% of GDP in 2017[2]. Given its footprint over the Indian economy, the export oriented model of growth seems both desirable and achievable.

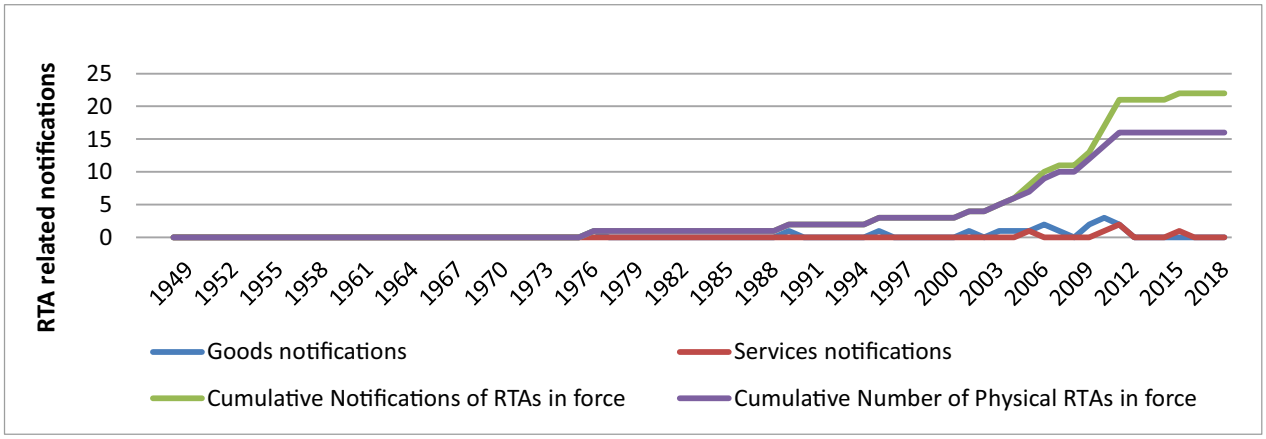
Global trading patterns suggest that since the turn of the century, regionalism (of which bilateralism is a part) has come to dominate the global trading architecture. The chart below shows the notifications that Regional Trading Arrangement (RTA) parties have sent to the WTO, the spike in the numbers particularly in the last decade is suggestive of a broader shift in agenda.

Figure 1: Global use of RTAs



Source: WTO

Figure 2: India's use of RTAs



Source: WTO

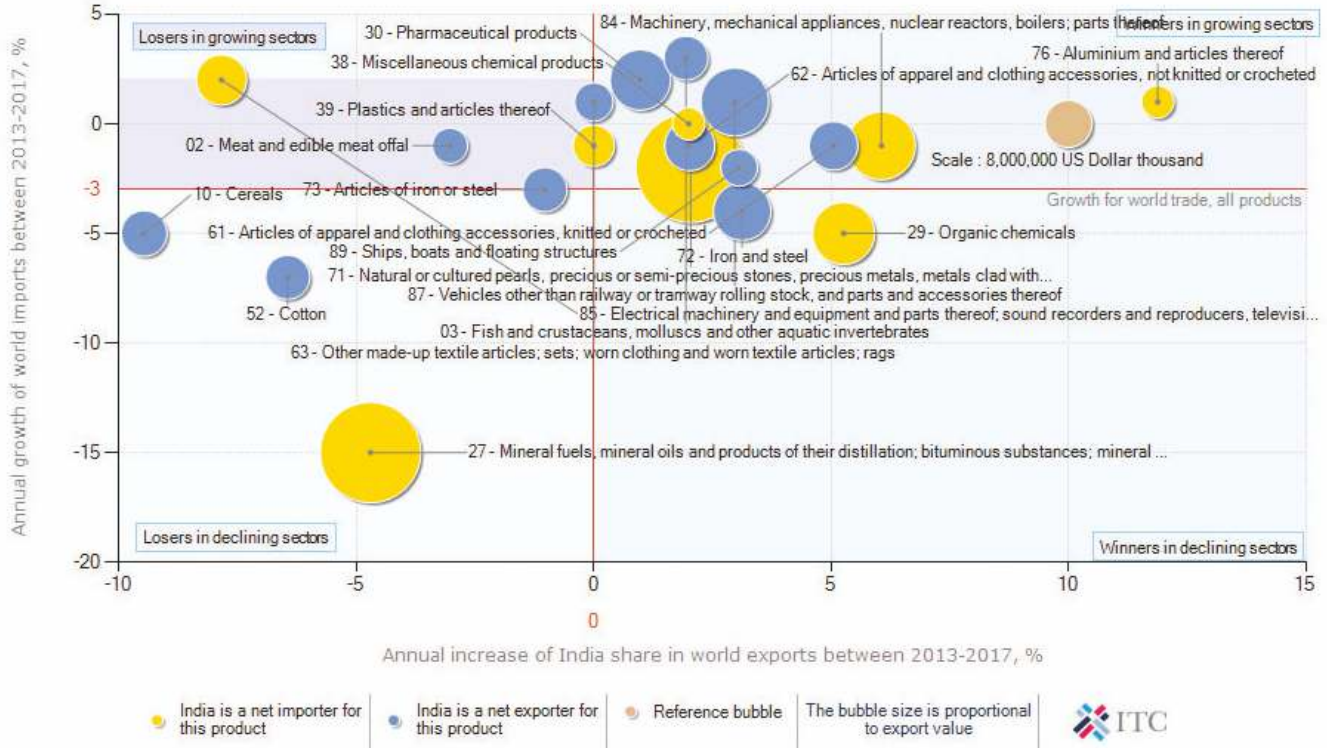
[1] IMF, World Economic Outlook Update 'Less Even Expansion, Rising Trade Tensions' June 2018
[2] https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=IN

By the same accounts, India's adoption of regionalism has been similar. The trend line for RTAs is suggestive of the use of Free Trade Agreements (FTAs), Preferential Trade Agreements (PTAs), Comprehensive Economic Partnership Agreements (CEPAs) and Comprehensive Economic Cooperation Agreements (CECAs) (as means of achieving regional cooperation) as trade instruments. In the Indian example, as of 2018, 16 RTAs including bilateral PTAs and FTAs (notified to the WTO) are in force.

However, this embrace of regionalism and bilateralism has not yielded net positive impacts for India. According to a NITI Aayog report [3], India's exports to FTA partner countries have not outperformed exports to those countries with which there are no agreements in place. While increases have been observed in both imports and exports, the rise in the former outweighs the rise in the latter.

Additionally, as the figure 1 shows [4], a fall in India's export market shares is visible when the annual growth of a partner market's (countries with which agreements exist) imports is plotted against the growth rate of Indian exports to that country at an aggregate level. For partner countries such as Singapore, Malaysia, Japan, Republic of Korea and Sri Lanka, India's growth rate for exports in 2017 did not exceed the market growth rate for imports. This trend is reversed in some countries with whom agreements do not exist such as UAE, Germany and Hong Kong, China.

Figure 3: Growth of national supply and international demand for products exported by India in 2017



[3] NITI Aayog, 2018 A Note on Free Trade Agreements and their Cost.
[4] Source : International Trade Centre, ITC Trade Map. The infographic can be accessed at:
https://www.trademap.org/Product_SelProductCountry_Graph.aspx?nvpm=1|699|||TOTAL|||2|1|1|2|1|1|1|1|1

Evaluating the impact of trade agreements on the export capacities of India has been a point of intellectual inquiry for some time now. Think tanks, academicians, economists, consulting firms and companies themselves have each attempted their own evaluations. Given the multiplicity of arguments, the wide ranging consensus on certain facets and the numerous insights that exist, there was a need to tie the story together. Such is the scope of this study.

Indeed, gains can accrue from trade agreements through numerous avenues such as standards, investment, technology transfer, high quality intermediate inputs and even political momentum in relations between trade partners. This report focuses its evaluation on the effect of a trade agreement on gains in exports. In particular, in evaluating the impact of a given trade agreement, this report focuses on gains in market share in the partner country.

The study posits that trade agreements are necessary but not sufficient conditions for the above mentioned gains. The study also attempts to identify these 'sufficiency deficits' which can directly or indirectly affect the outcome of an FTA, PTA, CEPA or CECA.

Thus, the objective of the study was to investigate the roots of a new NPA: Non Performing Agreements and propose designs for its resolution.

TRENDS IN TRADE DATA (COMMODITY TRADE) WITH KEY FTA PARTNERS

Recent trends in trade data show a diverse array of results for Indian exports. According to ITC data for 2017, while exports of 'natural or cultured pearls, semi-precious stones, precious metals and imitation jewellery' achieved an annual increase in world market share of 3.09% and exports of 'machinery, mechanical appliances, nuclear reactors, boilers, parts thereof' achieved an annual increase in world market share of 6.06%, exports of cotton had a reduction in market share at a rate of -6.45% and exports of electrical equipment fell in market share by -7.8%.

In order to capture trends, this paper considers a sample of partner markets in whose context the data is presented and analyzed.

The following partners have been selected based on their % share in Indian exports. They collectively reflect the 5 largest destinations (among trade agreement partner markets) for Indian exports [5].

Table 1: Export Partner Share (%)

Partner Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Japan	2.3	2.2	2	1.8	2.2	1.9	2.2	2.2	1.8	1.7	1.5
Korea, Rep.	1.9	1.7	2.1	2.1	1.6	1.5	1.4	1.3	1.5	1.4	1.3
Malaysia	1.1	1.3	1.7	2	1.6	1.3	1.3	1.6	1.5	1.9	1.6
Singapore	5.1	4.4	4.9	3.9	4.1	5.2	4.7	4.2	3	3	2.8
Sri Lanka	1.7	1.8	1.6	1	1.5	1.5	1.3	1.4	2	2.1	1.6

Source: WITS Database

[5] Source: WITS database. Available at https://wits.worldbank.org/CountryProfile/en/Country/IND/Year/2016/TradeFlow/Export/Partner/by-country Date of Access: 06/09/2018.

The above data shows a lack of observable growth (stagnation and/or reduction) in shares of partner countries (sample) as global destinations for Indian exports. Two questions follow from this observation; does such stagnation reflect a declining utility of bilateral or regional trade agreements? And if such agreements are to undergo deepening or new agreements are to be negotiated, what corrective measures in strategy are necessary?

TRADE FLOW TRENDS AT A GLANCE

FTA Partner	Trends in Trade Flow	High Export Potential Products
Singapore	As of 2017, India accounted for merely 2.3% of Singapore's imports in goods and in 2016 India accounted for 2.34% of Singapore's imports of services	▪ Jewellery, of precious metal ▪ Diamonds, worked ▪ Medicaments consisting of mixed or unmixed products, for retail sale
Japan	As of 2017 India accounted for 0.8% of Japan's total merchandize import and 1.1% of Japan's total service import	▪ Medicaments consisting of mixed or unmixed products, for retail sale ▪ Aluminium, not alloyed, unwrought ▪ Motor vehicles for the transport of persons
Sri Lanka	After the signing of the ISFTA, India became the 5th largest export market for Sri Lanka by 2011. Within the same time frame, Indian export value to Sri Lanka saw a 7 fold increase. As of 2017, India accounts for 21.08% of Sri Lanka's total merchandize import	▪ Medicaments consisting of mixed or unmixed products, for retail sale ▪ Cane or beet sugar & chemically pure sucrose ▪ Motorcycles, piston engine >50cm3 but <=250cm3
Malaysia	In 2017 India accounted for 3.2% of Malaysia's total merchandize import	▪ Copper cathodes ▪ Semi-milled or wholly milled rice ▪ Jewellery, of precious metal
Republic of Korea	As of 2017, India accounted for 1.03% of Republic of Korea's total merchandize import	▪ Medicaments consisting of mixed or unmixed products, for retail sale ▪ Motor vehicles for the transport of persons ▪ Bovine cuts boneless, frozen

Source: ITC Trade Map and ITC Export Potential Database

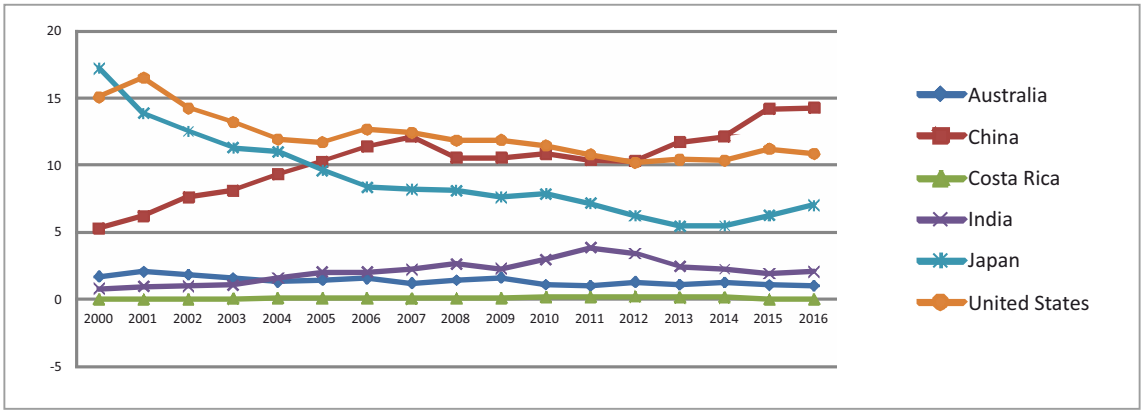
Bilateral Export Performance & Potential in Partner Markets (Select Countries)

Singapore

India signed a CECA with Singapore that came into force in 2005. At the time, it was the first of its kind; an agreement that had substantial coverage of goods, services and investment. The vision reportedly was to utilize an agreement with Singapore as a lever to tap into the global value chains based in South East Asia [6]. The agreement was a precedent both in terms of vision and content.

Yet, as of 2017, India accounted for merely 2.3% of Singapore's imports in goods up from 1.6% in 2004 (pre-CECA) [7]. When compared to other FTA partners of Singapore, India appears to have done relatively well when compared to Australia but still has a substantially lower share of imports when compared to China, Japan and US who accounted for 14.2 % (up from 9.3% in 2004), 7% (down from 11% in 2004) and 10.8% (down from 11.9 % in 2004).

Figure 4: Singapore: Import Partner Share (%)



Source: WITS Database

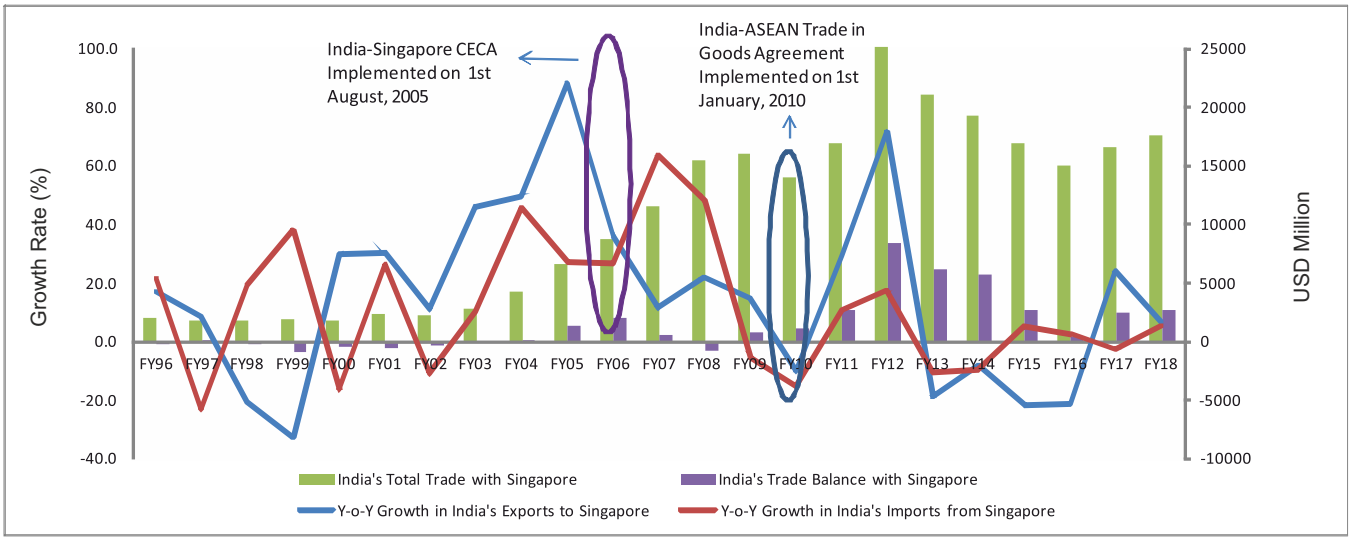
Table 2: Top 10 Indian Export Products (Annual Growth in Value 2013 – 2017): Singapore

Product Code	Product	Growth (% p.a.)[8]
'74	Copper and articles thereof	160
'79	Zinc and articles thereof	125
'43	Furskins and artificial fur; manufactures thereof	90
'02	Meat and edible meat offal	83
'67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	63
'76	Aluminium and articles thereof	55
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	55
'18	Cocoa and cocoa preparations	43
'14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	36
'72	Iron and steel	22

Source: ITC Trade Map

[6] Seshadri, V.S. 2017 India-Singapore CECA: An Appraisal. New Delhi: RIS& AIC
[7] WITS database
[8] The 5-year growth trend indicators in Trade Map are calculated using the logarithmic least-squares trend method on series valued in current USD.

Figure 5: India's Trade with Singapore



Source: CEIC Database and MVIRDC WTC Mumbai In-house Analysis

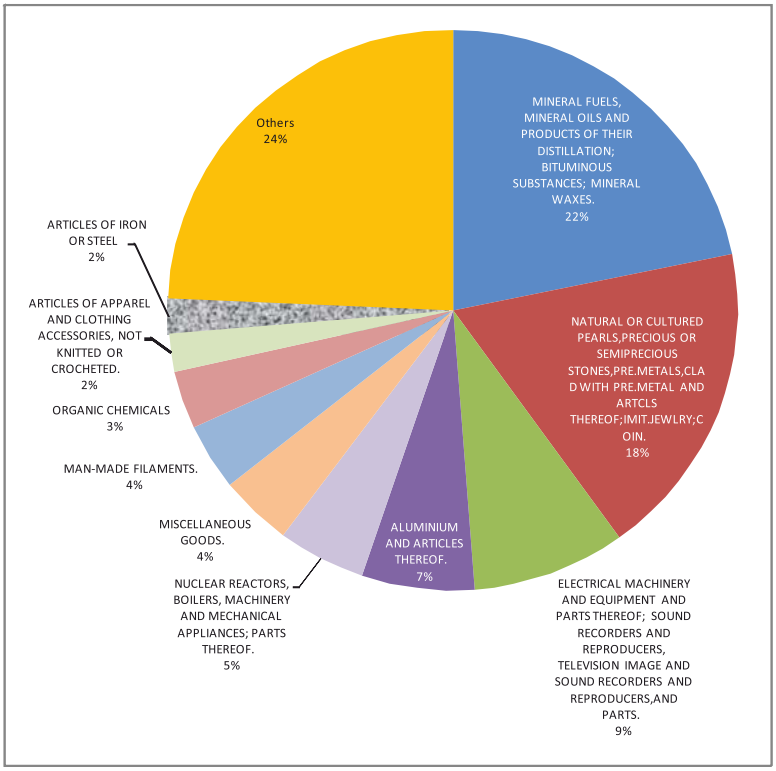
Although India has had a positive trade balance with Singapore post signing of the India-Singapore CECA (except Fy08), initially, when the trade was growing, the growth in imports was higher than the growth in our exports to Singapore. There was a spike in our export growth after signing the India–ASEAN Trade in Goods Agreement, but it can be attributed to international oil prices as we have been mainly exporting mineral fuels, mineral oils and products of their distillation, bituminous substances and mineral waxes to Singapore in the last couple of years.

There is a need to increase the share of value-added products like electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers and parts, nuclear reactors, boilers, machinery and mechanical appliances and parts thereof, organic chemicals and pharmaceuticals in order to diversify the export basket. These will not only accelerate India's export revenues from Singapore, but also reduce the export dependency on mineral fuels and oils which are highly price-volatile products, affecting not only our current account deficit, but also overall revenues.

On the other hand, Singapore has well diversified its export basket to India in terms of value-added goods, over the years. These goods serve as important intermediates in India's domestic production and will therefore, be in constant demand. There is a need for India to strongly diversify its export basket to Singapore and move up the value chain, not only for stronger export revenues, but also to optimize the trade opportunities thrown open by entering into the FTAs.

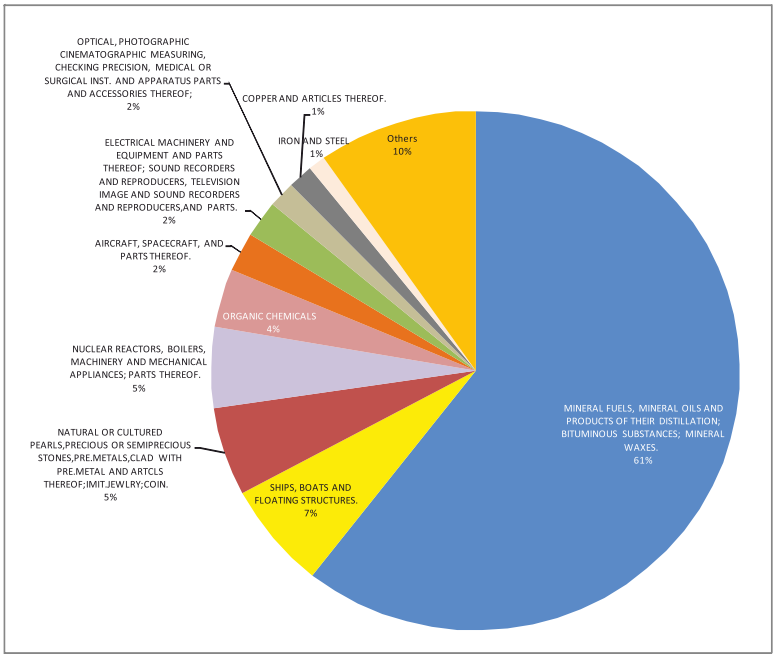
For Indian exports to Singapore, ITC export potential maps estimate USD 2.8 billion of untapped value in goods trade. Goods with high potential include 'jewellery of precious metal' , 'diamonds worked', 'organic chemicals', 'semi milled or wholly milled rice', 'benzene' , 'chassis' and 'cane or beet sugar'. Tapping into such untapped value then requires a strategy that encapsulates not only the existence of preferential tariffs but also the conditions that optimize the opportunity they provide.

Figure 6: India's Major Exports to Singapore [Share (%), 2002-03]



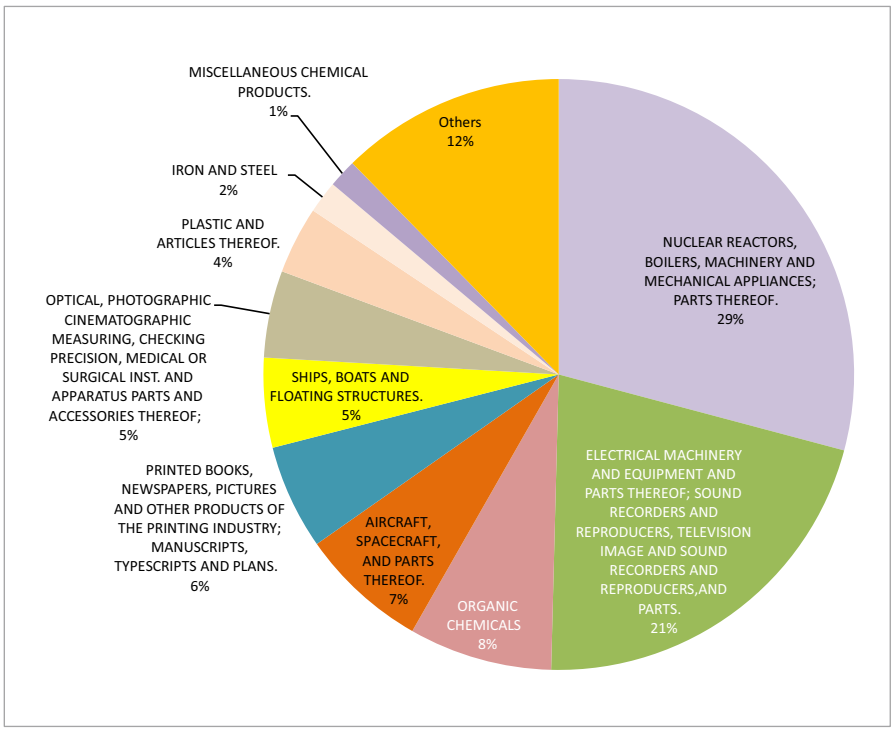
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 7: India's Major Exports to Singapore [Share (%), 2017-18]



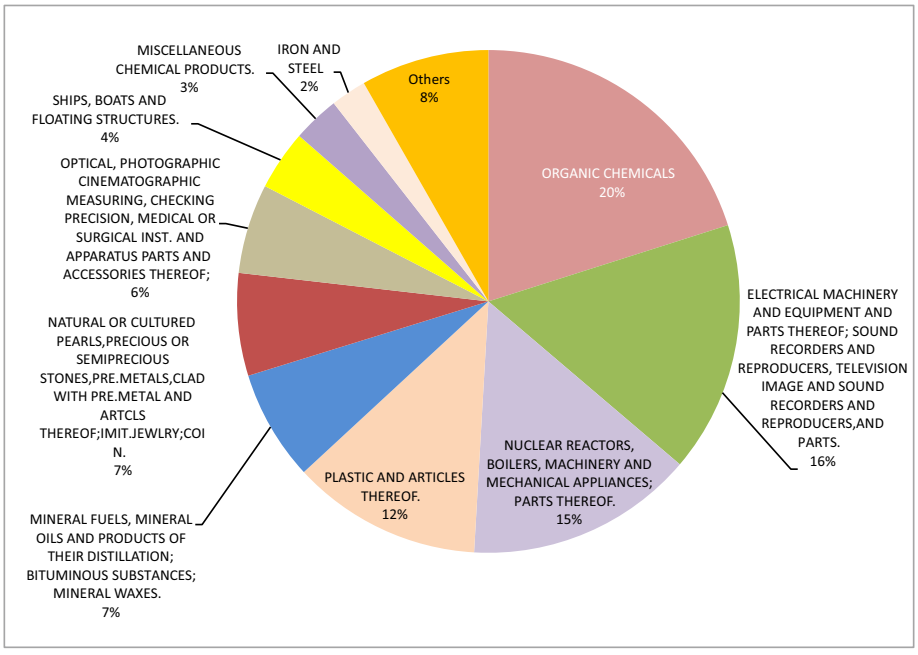
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 8: India's Major Imports from Singapore [Share (%), 2002-03]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 9: India's Major Imports from Singapore [Share (%), 2017-18]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 3: India's Major Exports to Singapore (2017-18, at HS Code 4-digit Level)

		2017-2018		2002-03	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	6,119	60.0	295	20.7
8905	LIGHT-VSSLS,FIRE-FLOATS,DREDGERS,FLOATING OTHR SMLR VSSLS WHRE NAVGABLTY IS SBSDRY TO THR MN FNCTN;FLTNG DOCKS;FLTNG PL	489	4.8	0	0.0
7102	DIAMONDS, WHETHER OR NOT WORKED, BUT NOT MOUNTED OR SET	276	2.7	216	15.2
7113	ARTCLS OF JEWELLERY AND PRTS THEREOF; OF PRCS MTL/OF MTL CLD WTH PRECIOUS METAL	270	2.6	41	2.9
8803	PRTS OF GOODS OF HDG NO.8801 OR 8802	249	2.4	4	0.3
2933	HETEROCYCLIC COMPOUNDS WITH NITROGEN	171	1.7	2	0.1
8411	TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINES	165	1.6	3	0.2
7403	REFINED COPPER AND COPPER ALLOYS, UNWROUGHT	150	1.5	0	0.0
7214	OTHER BARS AND RODS OF IRON OR NON-ALLOY STEEL, NOT FURTHER WORKED THAN FORGED, HOT-ROLLED, HOT-DRAWN	94	0.9	0	0.0
8904	TUGS AND PUSHER CRAFT	93	0.9	#N/A	#N/A
8901	CRUISE SHIPS, EXCURSION BOATS , FERRY- BOATS, CARGO SHIPS, BARGES AND SIMILAR VESSELS FOR THE TRANSPORT OF PERSONS	93	0.9	1	0.1
7601	UNWROUGHT ALUMINIUM	82	0.8	80	5.6
3204	SYNTC ORGNC COLRNG MATR W/N CHMCLY DFND	77	0.8	10	0.7
9022	OTHER APPLIANCESOF HEADING 9021 BTA/GMA RADITIONS INCL RADIOTHRPY APPRTS,X-RAY TUBEANDGNRTRS,HGH TNSN GNRTRS,S	64	0.6	6	0.4
8536	ELCTRCLS APPRTS FR SWTCHNG/PRTCTNG ELCTRCLCIRCUITS ETC.(E.G.SWTCHS RELAYS ETC.) FOR A VOLTAGE NOT EXCDG 1000 VOLTS	63	0.6	2	0.1
2707	OILS AND OTHER PRODUCTS OF THE DISTILLATION OF HIGH TEMPERATURE COAL TAR SIMILAR PRODUCTS IN WHICH THE WEIGHT	59	0.6	14	1.0
3004	MDCMNTS (EXCL ITMS OF 3002,3005 / 3006) FR THRPUTC/PRPHYLCTC USES IN MEASURD DOSESOR IN PCKNGS FR RTL SALE	59	0.6	9	0.6
1006	RICE	51	0.5	19	1.3
8407	SPARK-IGNITION RECIPROCATING OR ROTARY INTERNAL COMBUSTION PISTON ENGINES	48	0.5	0	0.0
3303	PERFUMES AND TOILET WATERS	38	0.4	0	0.0
8517	ELCTRCL APARTS FR LINE TELEPHNY/TELGRPHY, INCL TELPHON SETS WTH CORDLS HANDSET CARIER-CURENT LINE SYSTM; VIDEOPHONE	33	0.3	1	0.1
8504	ELECTRICAL TRANSFORMERS, STATIC CONVERTERS (FOR EXAMPLE, RECTIFIERS) AND INDUCTORS	32	0.3	3	0.2
8481	TAPS, COCKS, VALVES AND SIMILAR APPLIANCES FOR PIPES, BOILER SHELLS, TANKS, VATS OR THE LIKE, INCLUDING PRESSURE-REDUCIN	29	0.3	4	0.3
8475	MCHNS FR ASSMBLNC ELCTRC/ELCTRNC LAMPS, TUBES/VALVE/FLASH-BULBS,IN GLASS ENVELOPS,MCHNS FR MNFCTRNG/HT WRKNG GLASS/GLA	28	0.3	0	0.0
8473	PARTS AND ACCESSORIES OTH THN COVERS, CARRYING CASES)SUITABLE FOR USE SOLELY /PRINCIPALLY WITH MACHINES OF HDG 8470 TO 8472	27	0.3	10	0.7

Note: #N/A:- Not Available

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 4: India's Major Imports from Singapore (2017-18, at HS Code 4-digit Level)

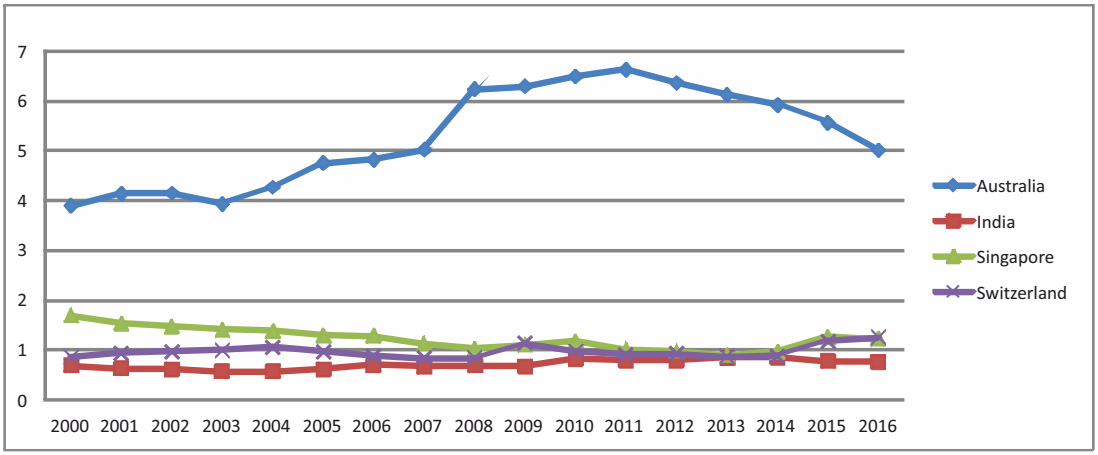
		2017-2018		2002-03	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
8471	AUTOMATIC DATA PROCESSING MACHINES AND UNITS	779	10.4	208	14.5
2902	CYCLIC HYDROCARBONS	752	10.1	52	3.6
8517	ELCTRCL APARTS FR LINE TELEPHNY/TELGRPHY, INCL TELPHON SETS WTH CORDLS HANDSET CARIER-CURENT LINE SYSTM; VIDEOPHONE	486	6.5	33	2.3
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	485	6.5	#N/A	#N/A
2915	SATRTD ACYLC MONOCRBOXYLIC ACIDS AND THR ANHYDRTDS,HALIDS,PEROXIDS AND PEROXY ACIDS; THR HALGNTD SLPHNTD NITRTD/NITRS	278	3.7	13	0.9
3901	POLYMERS OF ETHYLENE IN PRIMARY FORMS	275	3.7	9	0.6
7102	DIAMONDS, WHETHER OR NOT WORKED, BUT NOT MOUNTED OR SET	269	3.6	18	1.2
3902	POLYMERS OF PROPYLENE OR OF OTHER OLEFINS, IN PRIMARY FORMS	265	3.5	18	1.2
8542	ELCTRNC INTEGRTD CIRCUITS AND MICRO-ASSMBLS	227	3.0	78	5.4
8905	LIGHT-VSSLS,FIRE-FLOATS,DREDGERS,FLOATING OTHR SMLR VSSLS WHRE NAVGABLTY IS SBSDRY TO THR MN FNCTN;FLTNG DOCKS;FLTNG PL	185	2.5	48	3.3
2905	ACYCLIC ALCOHOLS AND THEIR HALOGENATED, SULPHONATED, NITRATED OR NITROSATED DERIVATIVES	184	2.5	9	0.6
9027	INSTRUMENTS AND APPARATUS FOR PHYSICAL OR CHEMICAL ANALYSIS (FOR EXAMPLE, POLARIMETERS, REFRACTOMETERS, SPECTR	166	2.2	11	0.8
3907	POLYACETALS, OTHER POLYETHERS AND EPOXIDE RESINS,	145	1.9	4	0.3
7108	GOLD(INCL GOLD PLTD WTH PLTNM)UNWROUGHT OR IN SEMI MNFCTRD FORMS/IN PWDR FORM	117	1.6	2	0.2
2916	UNSATURATED ACYCLIC MONOCARBOXYLIC ACIDS, CYCLIC MONOCARBOXYLIC ACIDS, THEIR ANHYDRIDES, HALIDES, PEROXIDES AND P	113	1.5	8	0.5
7204	FERROUS WASTE AND SCRAP; REMELTING SCRAP INGOTS	112	1.5	18	1.3
3909	AMINO-RESINS, PHENOLIC RESINS AND POLYURETHANES,	102	1.4	1	0.1
3811	ANTI-KNOCK PREPARATIONS, OXIDATION INHIBITORS, GUM	89	1.2	12	0.8
7106	SILVR(INCLD SLVR PLTD WTH GOLD/PLTNM) UNWRGHT/IN SEMI MNFCTRD FORM/IN PWDR FORM	88	1.2	1	0.1
8541	DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; PHOTOSENSITIVE SEMICONDUCTOR DEVICES, INCLUDING PHO	77	1.0	22	1.5
8904	TUGS AND PUSHER CRAFT	76	1.0	4	0.3
8536	ELCTRCLS APPRTS FR SWTCHNG/PRTCTNG ELCTRCLCIRCUITS ETC.(E.G.SWTCHS RELAYS ETC.) FOR A VOLTAGE NOT EXCDG 1000 VOLTS	73	1.0	13	0.9
9018	INSTRMNTS AND APPLNCS USED IN MDCL,SURGCL, DNTL/VTRNRY SCNCS,INCL SCNTGRPHC APPRTS ELCTRO-MDCL APPRTS AND SIGHT-TSTNG	72	1.0	12	0.8
3824	PRPD BNDRS FR FOUNDRY MOULDS/CORES,CHMCL PRDCTS AND PRPNS,RESDUAL PRDCTS OF CHMCL OR ALLIED INDUSTRIES N.E.S.	71	1.0	4	0.3
9032	AUTMTC REGLTNG/CONTRLNG INSTRMNTS AND APRTS	71	0.9	7	0.5

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Japan

India signed a CEPA with Japan in 2011. The CEPA, when viewed relative to other Indian FTAs has relatively greater depth (number and breadth of provisions). The Joint Study Group (JSG) on whose report the CEPA rests, identified strong complementarities across sectors in factor endowments and demographic trends such as increasing labour supply in India and an ageing population in Japan [9]. The CEPA thus, holds as much value as it holds potential. Yet, as of 2017 India accounted for 0.8% of Japan's total merchandize import. In comparison China, Republic of Korea and Thailand accounted for 24.5%, 4.2%, 3.4% respectively. When compared with countries that have FTAs with Japan, India's share in Japan's imports appears to be relatively low with marginal increases after 2010 [10].

Figure 10: Japan: Import Partner Share (%)



Source: WITS Database

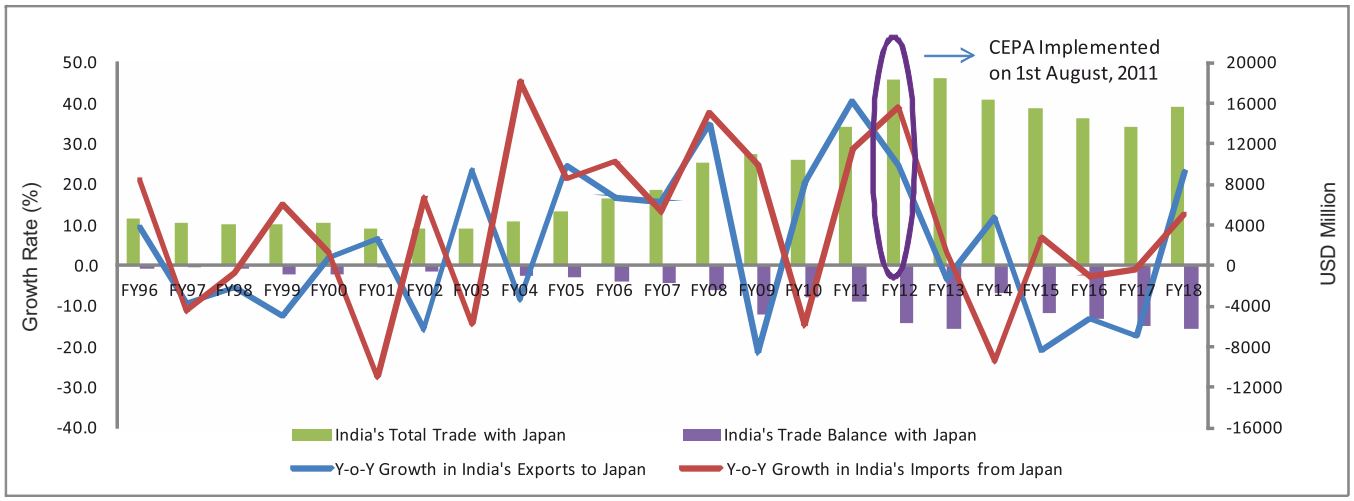
Table 5: Top 10 Indian Export Products (Annual Growth in Value 2013 – 2017): Japan

Product Code	Product	Growth (% p.a.)
'43	Furskins and artificial fur; manufactures thereof	234
'24	Tobacco and manufactured tobacco substitutes	137
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	109
'76	Aluminium and articles thereof	82
'31	Fertilisers	71
'97	Works of art, collectors' pieces and antiques	42
'07	Edible vegetables and certain roots and tubers	28
'51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	27
'83	Miscellaneous articles of base metal	26
'37	Photographic or cinematographic goods	26

Source: ITC Trade Map

[9] Seshadri, V.S. 2016 India-Japan CEPA: An Appraisal. New Delhi: RIS& AIC
[10] Import partner share % have been shown for countries that have agreements with the market being analyzed. In this case, Japan.

Figure 11: India's Trade with Japan



Source: CEIC Database and MVIRDC WTC Mumbai In-house Analysis

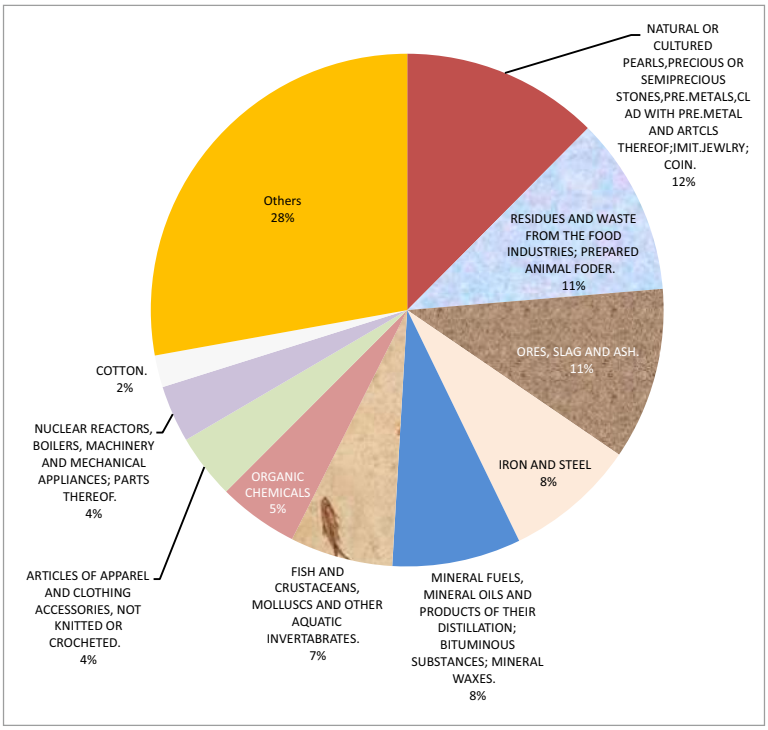
India's total trade with Japan has not accelerated post implementation of their FTA. Further, its trade deficit with Japan has widened. India imports capital as well as intermediate goods from Japan. Yet, the composition of its export basket in FY18 has improved in terms of value-added products compared to Fy09.

However, there is a lack of electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers and parts in India's major exports to Japan, while these form a substantial share of our imports from Japan. If India wants to reduce its trade deficit with Japan, it has to gain competence in the production of high-tech intermediate products that can serve as raw materials in the capital-intensive manufacturing industries of Japan.

Further, India should tap the pharmaceutical market in Japan as it has a competitive advantage in this sector.

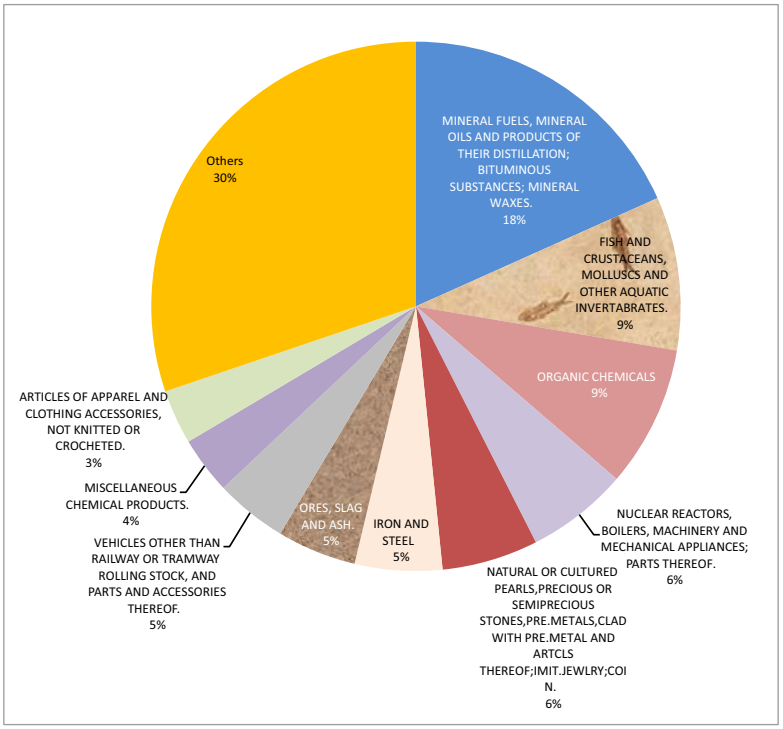
For Indian goods export to Japan, ITC export potential maps estimate USD 3.2 billion of untapped potential. High potential goods include 'medicaments for retail' , diamonds worked' , 'jewellery of precious metal' , 'frozen shrimps and prawns' , ' cotton apparel' , 'motor vehicles' and 'organic chemicals' .

Figure 12: India's Major Exports to Japan [Share (%), 2008-09]



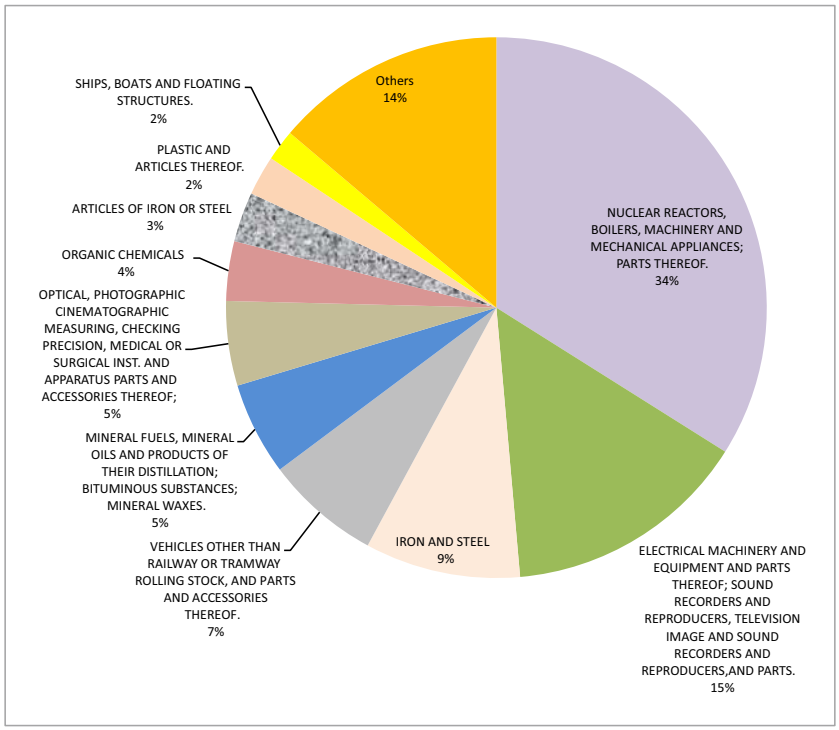
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 13: India's Major Exports to Japan [Share (%), 2017-18]



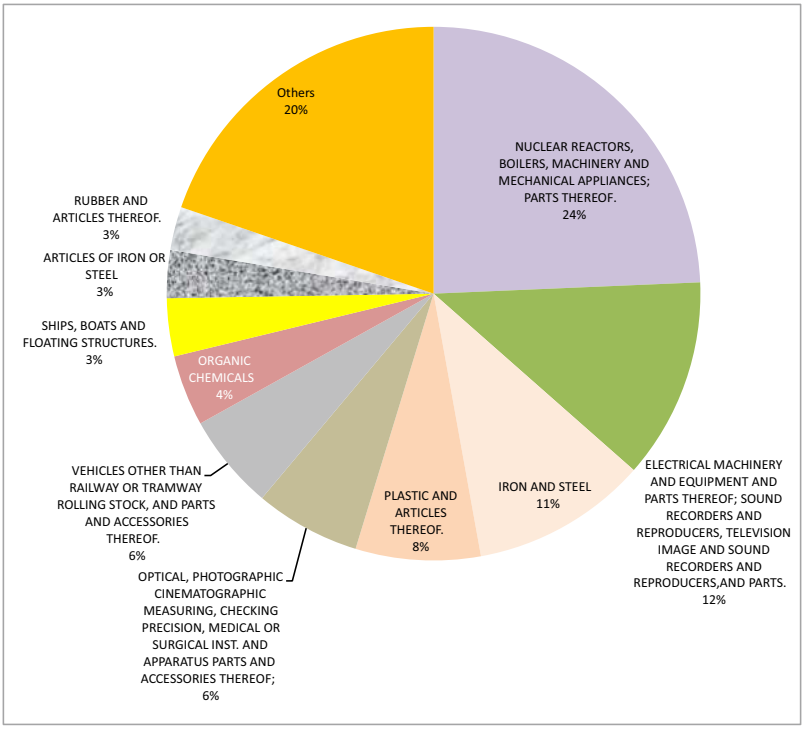
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 14: India's Major Imports from Japan [Share (%), 2008-09]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 15: India's Major Imports from Japan [Share (%), 2017-18]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 6: India's Major Exports to Japan (2017-18, at HS Code 4-digit Level)

		2017-2018		2008-09	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	865	18.3	215	7.1
306	CRSTCNS W/N IN SHL,LIVE,FRSH,CHLD,FRZN,DRDSLTD/IN BRINE;CRSTCNS,IN SHL,CKD BY STMNG OR BOILING,W/N CHLD,FRZN,DRD,SLTD/IN	348	7.3	171	5.7
7102	DIAMONDS, WHETHER OR NOT WORKED, BUT NOT MOUNTED OR SET	249	5.3	240	7.9
7202	FERRO-ALLOYS	238	5.0	204	6.8
2601	IRON ORES AND CONCENTRATES, INCLUDING ROASTED IRON PYRITES IRON ORES AND CONCENTRATES, OTHER THAN ROASTED IRO	190	4.0	253	8.4
7601	UNWROUGHT ALUMINIUM	139	2.9	15	0.5
8708	PARTS AND ACCESSORIES OF THE MOTOR VEHICLES OF HEADINGS 8701 TO 8705	131	2.8	17	0.5
3808	INSCTCDS,RDNTCDS,FNGCDS,HRBCDS,ANTSPROUTNGPRDCTS AND PLNTGRWTH RGLTRS-DSINFCTNTS ETC IN PCKNGS/AS ARTCLS (SLPHR-TRTD BN	126	2.7	29	1.0
801	COCONUTS, BRAZIL NUTS AND CASHEW NUTS, FRESH OR DRIED, WHETHER OR NOT SHELLED OR PEELED	93	2.0	31	1.0
2933	HETEROCYCLIC COMPOUNDS WITH NITROGEN	87	1.8	11	0.4
8411	TURBO-JETS, TURBO-PROPELLERS AND OTHER GAS TURBINES	80	1.7	0	0.0
304	FISH FILLETS AND OTHER FISH MEAT (WHETHER OR NOT MINCED), FRESH, CHILLED OR FROZEN	80	1.7	6	0.2
3204	SYNTC ORGNC COLRNG MATR W/N CHMCLY DFND	63	1.3	37	1.2
8703	MOTR CARS AND OTHR MOTR VHCLS FR TRNSPRT OF PERSONS(EXCL OF 8702)INCL RCNG CARS ETC	55	1.2	4	0.1
6204	WOMEN?S OR GIRLS? SUITS, ENSEMBLES, JACKETS, BLAZERS, DRESSES, SKIRTS, DIVIDED SKIRTS, TROUSERS, BIB AND BRACE OVE	52	1.1	42	1.4
2304	OIL-CAKE AND OTHER SOLID RESIDUES WHETHER OR NOT GROUND OR IN THE FORM OF PELLETS, RESULTING FROM THE EXTRACTION OF SOY	45	1.0	334	11.0
6206	WOMEN?S OR GIRLS? BLOUSES, SHIRTS AND SHIRT-BLOUSES	45	1.0	42	1.4
3004	MDCMNTS (EXCL ITMS OF 3002,3005 / 3006) FR THRPUTC/PRPHYLCTC USES IN MEASURD DOSESOR IN PCKNGS FR RTL SALE	44	0.9	6	0.2
5205	COTN YRN(OTHR THN SWNG THRD)CNTNG 85% OR MORE BY WT OF COTON NT PUT UP FR RETL SALE	43	0.9	48	1.6
2934	MUCIEIC ACIDS AND THEIR SALTS W/N CHEMICALLYDEFINED , OTHER	37	0.8	1	0.0
8537	BORDS PANLS ETC EQUIPD WTH TWO OR MORE APPRTS OF HDG 8535/8536,INCL THOSE INCORPRTNG INSTRMNTS/APPRTS OF CH 90	37	0.8	1	0.0
1515	OTHER FIXED VEGETABLE FATS AND OILS (INCLUDING JOJOBA OIL) AND THEIR FRACTIONS, WHETHER OR NOT REFINED, BUT NOT CHE	32	0.7	37	1.2
4202	TRUNKS, SUIT-CASES, VANITY-CASES, EXECUTIVE-CASES, BRIEF-CASES, SCHOOL SATCHELS, SPECTACLE CASES, BINOCULAR	30	0.6	7	0.2
2921	AMINE- FUNCTION COMPOUNDS	28	0.6	21	0.7
2614	TITANIUM ORES AND CONCENTRATES	28	0.6	22	0.7

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 7: India's Major Imports from Japan (2017-18, at HS Code 4-digit Level)

		2017-2018		2008-09	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
8708	PARTS AND ACCESSORIES OF THE MOTOR VEHICLES OF HEADINGS 8701 TO 8705	586	5.3	459	5.8
3904	POLYMERS OF VINYL CHLORIDE OR OF OTHER HALOGENATED OLEFINS, IN PRIMARY FORMS	364	3.3	21	0.3
7225	FLT-RLLD PRDCTS OF OTHR ALLOY STL OF WDTH 600 MM OR MORE	314	2.9	127	1.6
7208	FLAT-ROLLED PRODUCTS OF IRON OR NON-ALLOY STEEL, OF A WIDTH OF 600 MM OR MORE, HOT- ROLLED, NOT CLAD, PLATED OR COATED	293	2.7	135	1.7
8908	VSSLS AND OTHR FLOATNG STRCTRS FR BREAKNG UP	248	2.3	2	0.0
8443	PRINTNG MACHNRY,INCL INK-JET PRINTNG MCHNSEXCL HDNG. NO 8471; MCHNS FR USES ANCILARY TO PRINTNG.	229	2.1	181	2.3
9801	PROJECT GOODS	229	2.1	126	1.6
2704	COKE AND SEMI-COKE OF COAL, OF LIGNITE OR OF PEAT, WHETHER OR NOT AGGLOMERATED; RETORT CARBON	194	1.8	20	0.3
7403	REFINED COPPER AND COPPER ALLOYS, UNWROUGHT	171	1.6	1	0.0
8479	MCHNS AND MCHNCL APPLNCS HVNG INDVDL FUNCTNS,N.E.S.	162	1.5	101	1.3
7210	FLT-RLLD PRDCTS OF IRON/NON-ALOY STEEL OF WDTH >=600 MM,CLAD,PLATD/COATD	161	1.5	190	2.4
8446	WEAVING MACHINES (LOOMS)	157	1.4	29	0.4
9027	INSTRUMENTS AND APPARATUS FOR PHYSICAL OR CHEMICAL ANALYSIS (FOR EXAMPLE, POLARIMETERS, REFRACTOMETERS, SPECTR	148	1.3	60	0.8
8409	PARTS SUITABLE FOR USE SOLELY OR PRINCIPALLY WITH THE ENGINES OF HEADING 8407 OR 8408	143	1.3	44	0.6
2815	SODIUM HYDROXIDE (CAUSTIC SODA); POTASSIUM HYDROXIDE (CAUSTIC POTASH); PEROXIDES OF SODIUM OR POTASSIUM	135	1.2	0	0.0
4002	SYNTHETIC RUBBER AND FACTICE DERIVED FORM OILS, IN PRIMARY FORMS OR IN PLATES, SHEETS OR STRIP; MIXTURES OF ANY PRO	135	1.2	39	0.5
8536	ELCTRCLS APPRTS FR SWTCHNG/PRTCTNG ELCTRCLCIRCUITS ETC.(E.G.SWTCHS RELAYS ETC.) FOR A VOLTAGE NOT EXCDG 1000 VOLTS	133	1.2	56	0.7
8542	ELCTRNC INTEGRTD CIRCUITS AND MICRO-ASSMBLS	129	1.2	139	1.8
9031	MEASURING OR CHECKING INSTRUMENTS, APPLIANCES AND MACHINES, NOT SPECIFIED OR INCLUDED ELSEWHERE IN THIS	127	1.2	69	0.9
7318	SCRWES,BOLTS,NUTS,COACHSCREWS,SCREW HOOKS RIVETS,COTTERS,COTTER-PINS,WASHERS(INCL SPRING WASHERS)AND SMLR ARTICLES OF	125	1.1	30	0.4
8482	BALL OR ROLLER BEARINGS	125	1.1	80	1.0
8408	COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINES (DIESEL OR SEMI-DIESEL ENGINES)	117	1.1	38	0.5
8541	DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; PHOTOSENSITIVE SEMICONDUCTOR DEVICES, INCLUDING PHO	113	1.0	106	1.3
8501	ELCTRC MOTRS AND GENRTRS(EXCL GENRTNG SETS)	113	1.0	44	0.6
8481	TAPS, COCKS, VALVES AND SIMILAR APPLIANCES FOR PIPES, BOILER SHELLS, TANKS, VATS OR THE LIKE, INCLUDING PRESSURE-REDUCIN	113	1.0	57	0.7

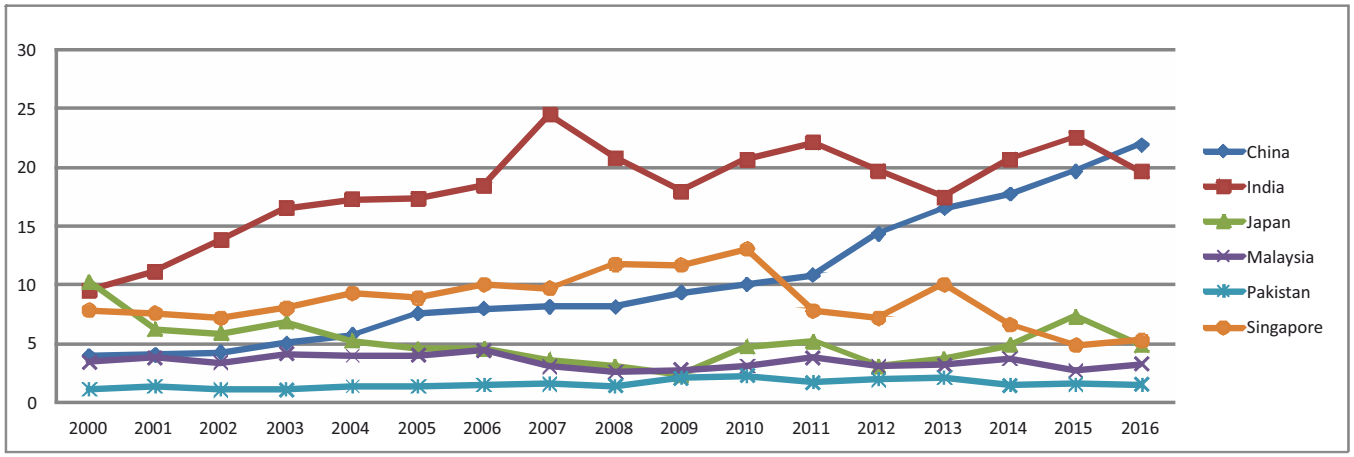
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Sri Lanka

The Indo-Sri Lanka FTA entered into force in 2000. According a report published by the Indian High Commission in Colombo, the ISFTA tilted the trade balance in Sri Lanka's favour [11]. After the signing of the ISFTA, India became the 5th largest export market for Sri Lanka by 2011. Prior to the ISFTA, India ranked 14th on that list. The report also found that the exports of high value added manufactured products from Sri Lanka to India had marginally increased in the decade following the inking of the agreement even though Sri Lanka's exports are dominated by primary commodities. Within the same time frame, Indian export value to Sri Lanka saw a 7 fold increase. Inter alia, the report found that over 65% of Indian exports to Sri Lanka came under the 'negative list' of imports and hence did not receive preferential tariff treatment.

However, there are reasons to be optimistic. In 2017 India accounted for 21.08% of Sri Lanka's total merchandize import. The share in imports in this case is relatively higher since China, Singapore and Japan account for 19.7%, 6.1%, 4.9% respectively.

Figure 16: Sri Lanka: Import Partner Share (%)



Source: WITS Database

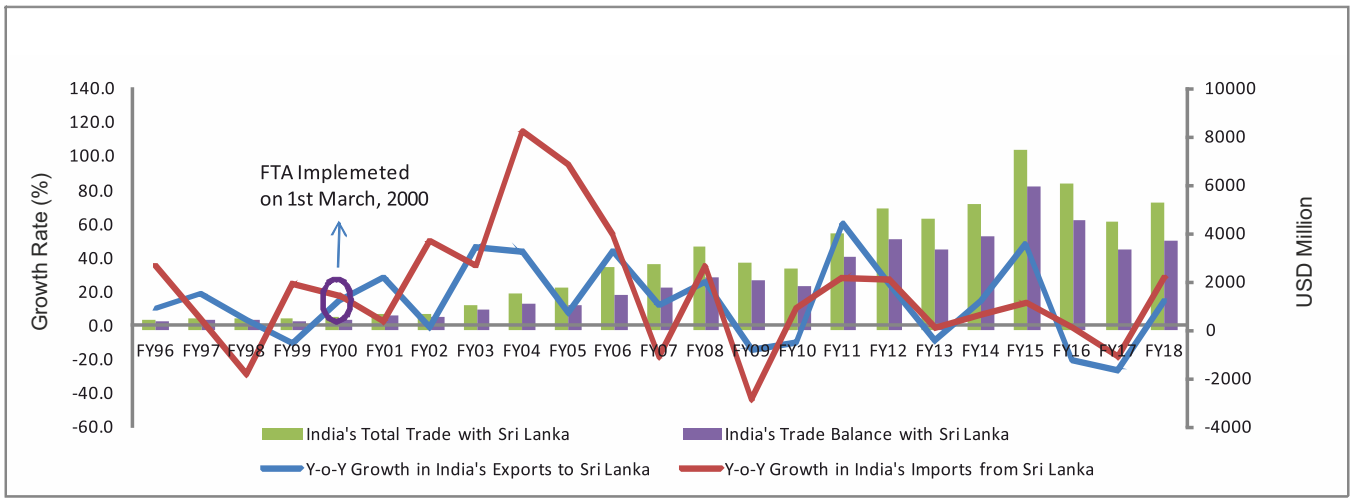
Table 8: Top 10 Indian Export Products (Annual Growth in Value 2013 – 2017): Sri Lanka

Product Code	Product	Growth (% p.a.)
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	128
'47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	57
'45	Cork and articles of cork	53
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	49
'20	Preparations of vegetables, fruit, nuts or other parts of plants	32
'18	Cocoa and cocoa preparations	26
'92	Musical instruments; parts and accessories of such articles	26
'01	Live animals	25
'80	Tin and articles thereof	20
'69	Ceramic products	18

Source: ITC Trade Map

[11] High Commission of India, 2013. Handbook on the India – Sri Lanka Free Trade Agreement. Colombo, Sri Lanka

Figure 17: India's Trade with Sri Lanka



Source: CEIC Database and MVIRDC WTC Mumbai In-house Analysis

Although India has always maintained a positive trade balance with Sri Lanka, the rate of growth in our imports from Sri Lanka was initially higher than the rate of growth of our exports to Sri Lanka, post signing the FTA. Prior to signing the FTA, India's major exports to Sri Lanka constituted about 30 per cent of agricultural products (in Fy98), which has come down to 10 per cent in FY18. Instead, mineral fuels, mineral oils and products of their distillation, bituminous substances and mineral waxes dominated our export basket to Sri Lanka in Fy18.

Further, vehicles other than railway or tramway rolling stock and parts and accessories thereof, iron and steel, nuclear reactors, boilers, machinery and mechanical appliances and parts thereof and pharmaceutical products have a significant share in our exports to Sri Lanka. These developments are indicative of positive aspects about India's current export composition to Sri Lanka.

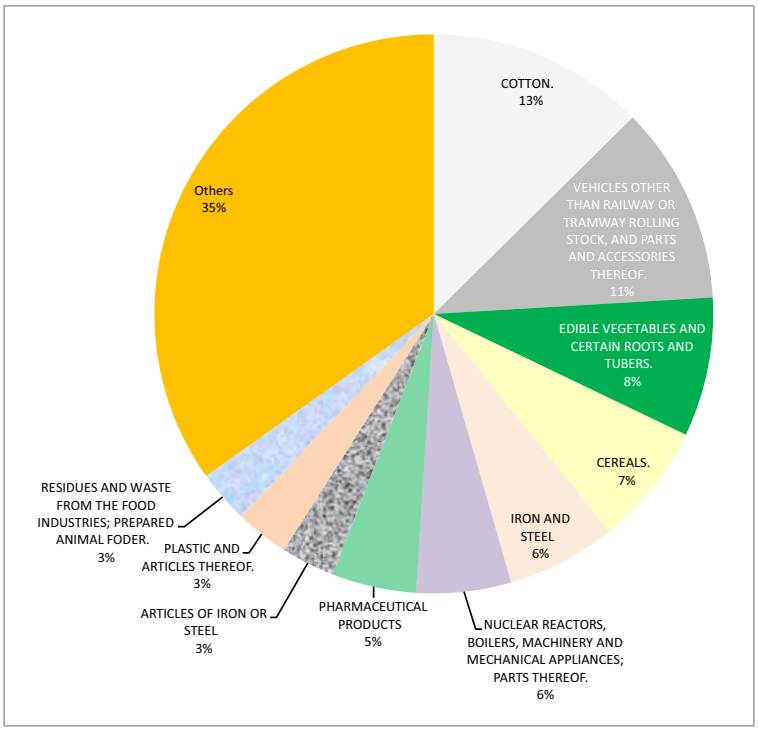
On the other hand, India's imports from Sri Lanka are still dominated by primary products, suggesting that Sri Lanka has to include higher value products in its export basket in order to enhance its exports to India.

Sri Lanka's exports to India in the years preceding the signing of the FTA in 2000 stood at 58 million US$. Exports from Sri Lanka peaked in 2005 when they stood at 566 million US$ [12]. Reportedly the rise of exports that reached a peak in 2005 were concentrated in the exports of copper and *vanaspati* [13]. There was also an expansion in the number of products imported by India. In 2005, India imported roughly 1062 tariff lines, up from 505 in 1999, signalling gains for Sri Lankan exporters in terms of an expanding export basket.

Relative to other partner markets, ITC market potential maps predict a relatively lower untapped potential owing to terms of trade marginally skewed in India's favour that has manifested itself in the form of rising exports (albeit in the light of a corresponding rise in imports). The untapped potential, that ITC data places at USD 1.1 billion is highlighted by products such as 'motor vehicles and parts' , 'pharmaceutical components' , 'cotton fabric' , ' mineral products' , 'sugar' , 'spices' and 'machinery'.

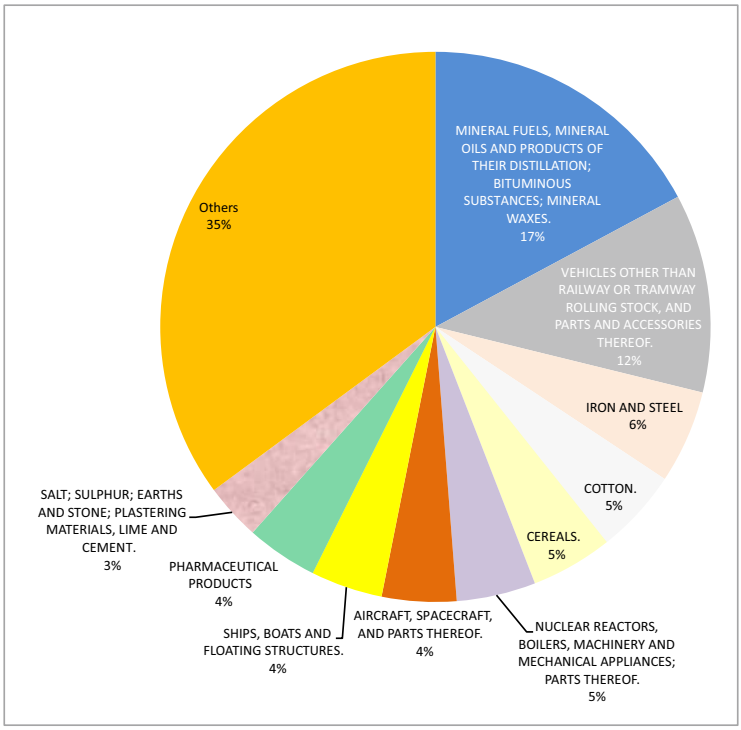
[12] High Commission of India, 2013. Handbook on the India – Sri Lanka Free Trade Agreement. Colombo, Sri Lanka
[13] The report by the High Commisssion suggests that duty free imports of copper dependent on 35% VA had caused smelters from India to shift base to Sri Lanka in order to avail benefits. Later, in 2012 the Sri Lankan government banned copper exports through a cabinet decision.

Figure 18: India's Major Exports to Sri Lanka [Share (%), 1997-98]



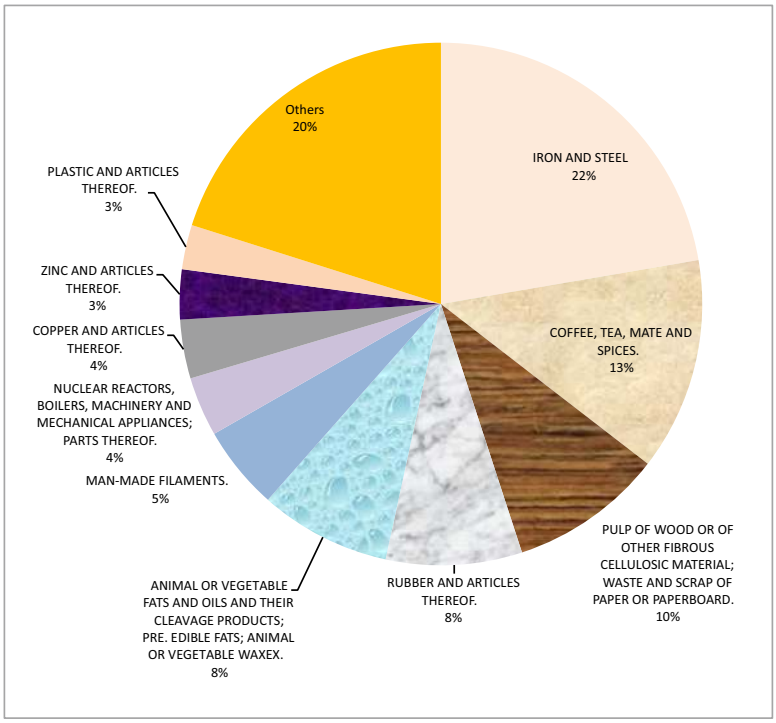
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 19: India's Major Exports to Sri Lanka [Share (%), 2017-18]



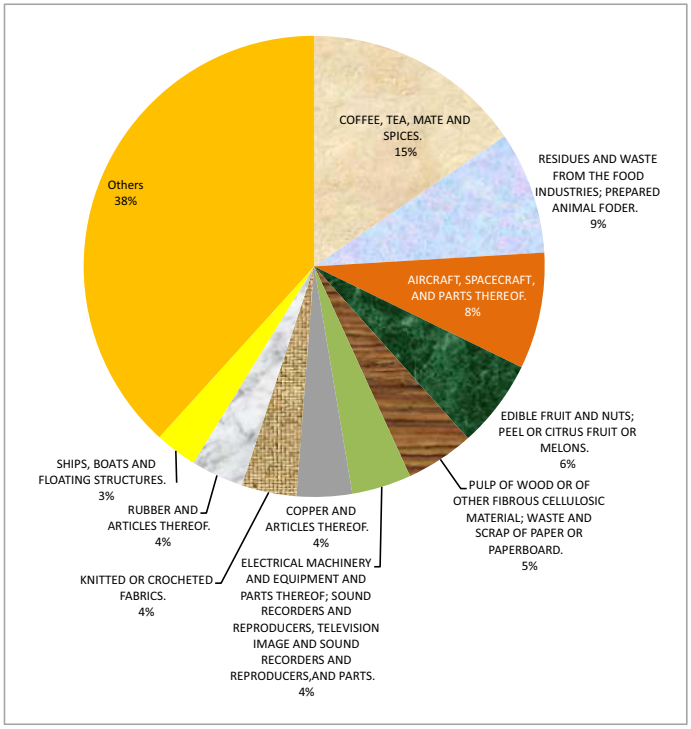
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 20: India's Major Imports from Sri Lanka [Share (%), 1997-98]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 21: India's Major Imports from Sri Lanka [Share (%), 2017-18]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 9: India's Major Exports to Sri Lanka (2017-18, at HS Code 4-digit Level)

		2017-2018		1997-98	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	766	17.1	0	0.0
8711	MOTORCYCLES (INCLUDING MOPEDS) AND CYCLES FITTED WITH AN AUXILIARY MOTOR, WITH OR WITHOUT SIDE-CARS;	216	4.8	18	3.7
1006	RICE	205	4.6	34	7.0
8802	OTHER AIRCRAFT (FOR EXAMPLE, HELICOPTERS, AEROPLANES); SPACECRAFT (INCLUDING SATELLITES) AND SUBORBITAL AND SPACE	196	4.4	#N/A	#N/A
3004	MDCMNTS (EXCL ITMS OF 3002,3005 / 3006) FR THRPUTC/PRPHYLCTC USES IN MEASURD DOSESOR IN PCKNGS FR RTL SALE	170	3.8	17	3.5
2523	PORTLAND CEMENT ALMNOUS CEMENT(CEMENT FONDU)SLAG CEMENT ETC AND SMLR HYDRLC CEMENTS W/N CLRD/IN THE FO	143	3.2	5	1.0
8905	LIGHT-VSSLS,FIRE-FLOATS,DREDGERS,FLOATING OTHR SMLR VSSLS WHRE NAVGABLTY IS SBSDRY TO THR MN FNCTN;FLTNG DOCKS;FLTNG PL	127	2.8	#N/A	#N/A
7207	SEMI-FINISHED PRODUCTS OF IRON OR NON- ALLOY STEEL	124	2.8	1	0.3
5208	WOVN FBRCS OF COTON CONTNG>=85% BY WT OF COTON WEGHNG NT MORE THN 200 G/M2	105	2.3	13	2.8
703	ONIONS, SHALLOTS, GARLIC, LEEKS AND OTHER ALLIACEOUS VEGETABLES, FRESH OR CHILLED	96	2.1	8	1.6
8704	MOTOR VEHICLES FOR THE TRANSPORT OF GOODS	88	2.0	3	0.6
6006	OTHER KNITTED OR CROCHETED FABRICS	84	1.9	#N/A	#N/A
5205	COTN YRN(OTHR THN SWNG THRD)CNTNG 85% OR MORE BY WT OF COTON NT PUT UP FR RETL SALE	70	1.6	25	5.1
8702	PUBLIC-TRNSPRT TYPE PASSENGER MOTOR VHCLS	53	1.2	9	1.9
904	PEPPER OF THE GENUS PIPER; DRIED OR CRUSHED OR GROUND FRUITS OF THE GENUS CAPSICUM OR OF THE GENUS PIMENTA PEP	52	1.2	2	0.4
8904	TUGS AND PUSHER CRAFT	50	1.1	#N/A	#N/A
4802	UNCOTD PAPR AND PAPRBORD FOR WRTNG,PRNTNG ORGRPHIC PRPSES,PNCH CRD STCKANDPNCH TPE PAPR OF HDNG 4801/4803 ; HND-MDE PAPR	50	1.1	9	1.9
6004	KNITD OR CROCHETED FBRCS OF WIDTH.30CM , CONTNG ELASTOMERIC YARN/RUBR>=5% BY WT, EXCPT HDGNO. 6001	49	1.1	#N/A	#N/A
5407	WOVN FBRCS OF SYNTHTC FILAMENT YARN INCL WOVN FBRCS OBTND FROM MTRLS OF HDG NO.5404	44	1.0	2	0.4
8708	PARTS AND ACCESSORIES OF THE MOTOR VEHICLES OF HEADINGS 8701 TO 8705	42	0.9	6	1.2
8701	TRACTORS (OTHER THAN TRACTORS OF HEADING 8709)	40	0.9	1	0.2
8703	MOTR CARS AND OTHR MOTR VHCLS FR TRNSPRT OF PERSONS(EXCL OF 8702)INCL RCNG CARS ETC	36	0.8	2	0.4
4810	PAPR/PAPRBORD COATD ON ONE/BOTH SIDES WITHKALN/OTHR INORG SUBSTS AND NO OTR COATNG W/NSURFCE COLRD/DECORTD/PRNTD IN	31	0.7	0	0.1
7303	TUBES, PIPES AND HOLLOW PROFILES, OF CAST IRON	28	0.6	1	0.1
7208	FLAT-ROLLED PRODUCTS OF IRON OR NON-ALLOY STEEL, OF A WIDTH OF 600 MM OR MORE, HOT- ROLLED, NOT CLAD, PLATED OR COATED	28	0.6	2	0.4

Note: #N/A:- Not Available

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 10: India's Major Imports from Sri Lanka (2017-18, at HS Code 4-digit Level)

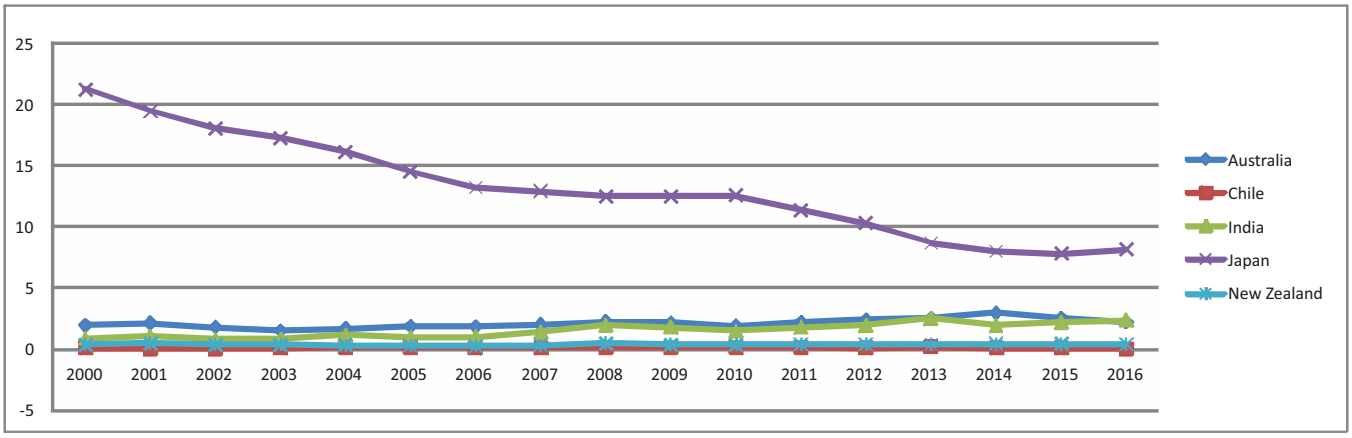
		2017-2018		1997-98	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
904	PEPPER OF THE GENUS PIPER; DRIED OR CRUSHED OR GROUND FRUITS OF THE GENUS CAPSICUM OR OF THE GENUS PIMENTA PEP	86	11.1	2	7.5
8802	OTHER AIRCRAFT (FOR EXAMPLE, HELICOPTERS, AEROPLANES); SPACECRAFT (INCLUDING SATELLITES) AND SUBORBITAL AND SPACE	63	8.1	#N/A	#N/A
2309	PREPARATIONS OF A KIND USED IN ANIMAL FEEDING	63	8.1	0	0.0
802	OTHER NUTS, FRESH OR DRIED, WHETHER OR NOT SHELLED OR PEELED	47	6.1	0	0.9
4707	RECOVERED (WASTE AND SCRAP) PAPER OR PAPERBOARD	37	4.8	3	9.4
8544	INSULATED (INCL ENAMELLED OR ANODISED) WIRE, CABLE (INCL CO-AXIAL CABLE) AND OTH INSULATED ELEC CONDUCTOR	24	3.1	0	0.0
8901	CRUISE SHIPS, EXCURSION BOATS , FERRY- BOATS, CARGO SHIPS, BARGES AND SIMILAR VESSELS FOR THE TRANSPORT OF PERSONS	23	2.9	#N/A	#N/A
6004	KNITD OR CROCHETED FBRCS OF WIDTH.30CM , CONTNG ELASTOMERIC YARN/RUBR>=5% BY WT, EXCPT HDGNO. 6001	20	2.6	#N/A	#N/A
907	CLOVES (WHOLE FRUIT, CLOVES AND STEMS) CLOVES (WHOLE FRUIT, CLOVES AND STEMS):	20	2.6	1	2.3
7408	COPPER WIRE	17	2.1	0	0.0
2711	PETRLM GASES AND OTHR GASEOUS HYDRCRBNS	15	2.0	#N/A	#N/A
2202	WATERS, INCLUDING MINERAL WATERS AND AERATED WATERS, CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER OR FLAVOURED	15	1.9	#N/A	#N/A
9403	OTHER FURNITURE AND PARTS THEREOF	15	1.9	0	0.1
6802	WRKD MONMNT/BLDG STONE (EXCPT SLATE)ETC EXCPT HDG 6801 MOSAIC CUBES ARTFCLY COLRD GRNLS ETC OF NATRL STONE (INCL SLATE	15	1.9	#N/A	#N/A
4819	CARTONS, BOXES, CASES, BAGS AND OTHER PACKING CONTAINERS, OF PAPER, PAPERBOARD, CELLULOSE WADDING OR WEBS OF CELLULO	13	1.7	0	0.4
8712	BICYCLES AND OTHER CYCLES (INCLUDING DELIVERY TRICYCLES), NOT MOTORISED	13	1.6	#N/A	#N/A
7801	UNWROUGHT LEAD	12	1.6	#N/A	#N/A
4015	ARTCL OF APARL AND CLOTHING ACCESSORIES (INCL. GLOVES, MITTENS AND MITTS) FOR ALL PURPOSE OF VULCANISED RUBR NOT HA	11	1.4	0	0.6
4011	NEW PNEUMATIC TYRES, OF RUBBER	10	1.3	0	0.0
6212	BRSSRS,GRDLS,CORSTS,BRCS,SUSPNDRS,GRTRS AND SMLR ARTCLS AND PRTS THROF,W/N KNTD/CROCHTD	8	1.1	0	0.0
7204	FERROUS WASTE AND SCRAP; REMELTING SCRAP INGOTS	8	1.0	7	22.3
6006	OTHER KNITTED OR CROCHETED FABRICS	8	1.0	#N/A	#N/A
2614	TITANIUM ORES AND CONCENTRATES	7	0.9	0	0.2
3301	ESNL OLS (CNCRTS/ABSLTS);RSNDS,EXTRTD OLORGN,CNCNTRTS IN FATS ETC;TRPNC BY- PRDCTAQUS DSTLTS/SLTN	7	0.9	0	1.0
908	NUTMEG, MACE AND CARDAMOMS	7	0.9	0	1.3

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Malaysia

Malaysia and India signed a CECA in 2011. The commitments in goods and service trade were beyond ASEAN and WTO commitments respectively. According to the Malaysia Enterprise Survey 2015 conducted by the World Bank, 45% of Malaysian firms sourced inputs from foreign suppliers and 19% directly or indirectly exported to markets other than their own. Additionally, Gross National Income measured in purchasing power parity terms (GNI, PPP constant USD 2011) in 2017 was reported at 825 billion USD, up from 667 billion USD in 2013. Thus the Malaysian industry and consumer base hold value for both exporters and importers. Yet, in 2017 India accounted for 3.2% of Malaysia's total merchandize import [14]. In comparison China, Thailand and Indonesia accounted for 19.6%, 5.7%, 4.5% respectively.

Figure 22: Malaysia: Import Partner Share (%)



Source: WITS Database

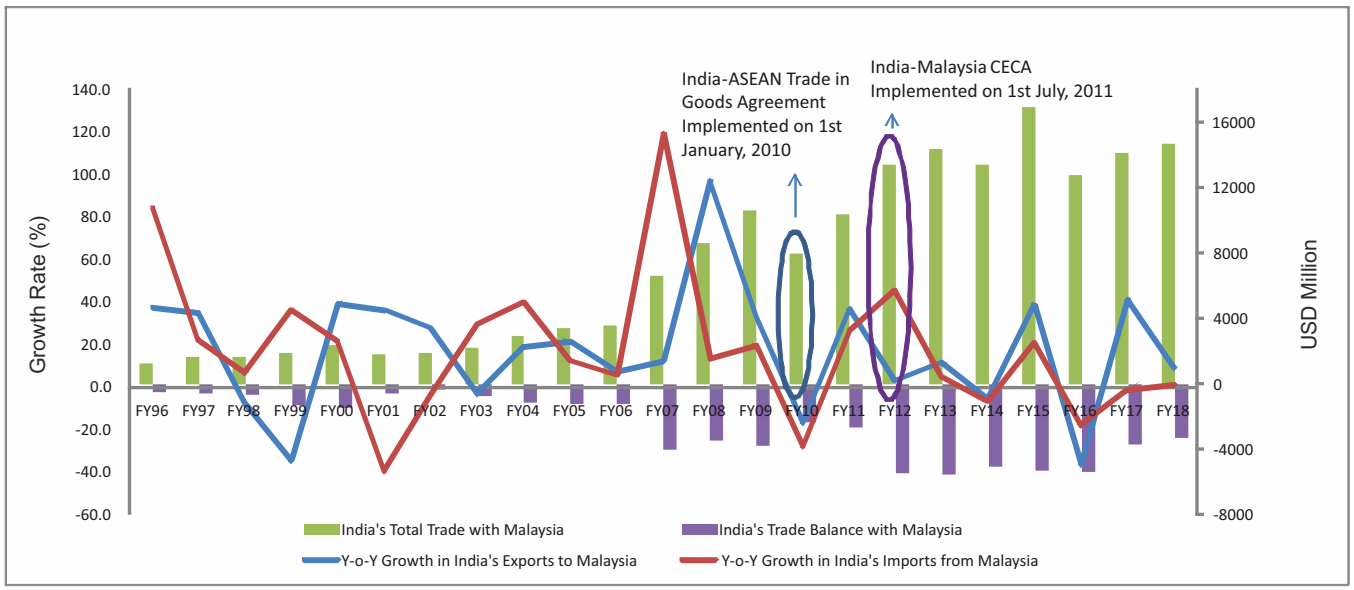
Table 11: Top 10 Indian Export Products (Annual Growth in Value 2013 – 2017): Malaysia

Product Code	Product	Growth (% p.a.)
'89	Ships, boats and floating structures	570
'16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	375
'76	Aluminium and articles thereof	174
'18	Cocoa and cocoa preparations	107
'79	Zinc and articles thereof	105
'14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	86
'46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	71
'20	Preparations of vegetables, fruit, nuts or other parts of plants	42
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	40
'22	Beverages, spirits and vinegar	39

Source: ITC Trade Map

[14] Calculations based on ITC import/export data

Figure 23: India's Trade with Malaysia



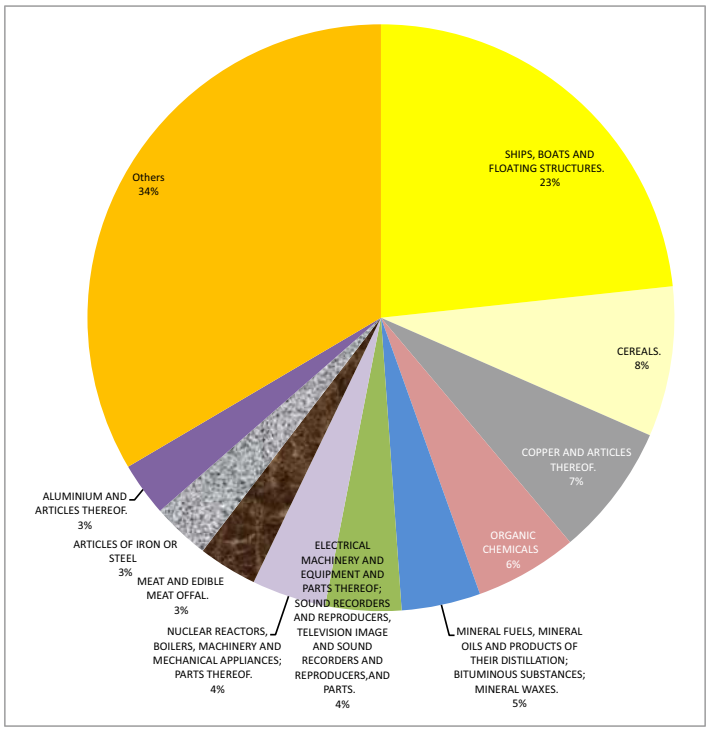
Source: CEIC Database and MVIRDC WTC Mumbai In-house Analysis

India's trade deficit with Malaysia has widened post implementation of the FTAs between the two countries. However, India's growth in exports to Malaysia has outpaced its growth in imports from Malaysia in some years.

Currently, India has a balanced composition of value-added products in its export basket to Malaysia, however the amount of our exports to Malaysia needs to increase in absolute terms, in order to address our trade deficit with Malaysia. Further, India's dependence on Malaysia in mineral fuels, mineral oils and products of their distillation, bituminous substances and mineral waxes imports in FY18 has reduced compared to FY09, which is a positive development. However, we have a less-tapped potential of exporting pharmaceutical products to Malaysia.

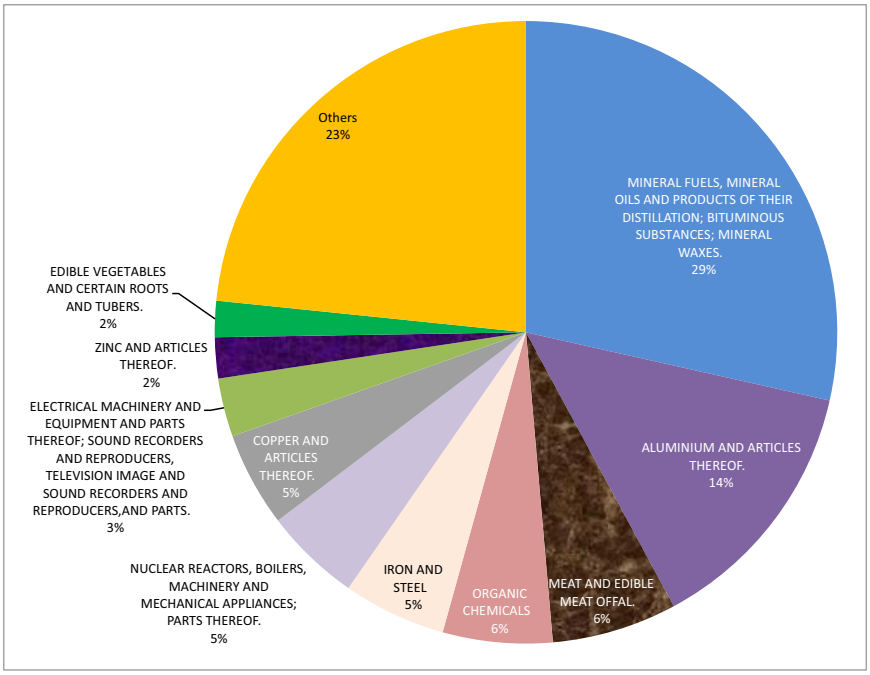
ITC export potential maps predict an untapped export potential of USD 4.7 billion for Indian exports to Malaysia. High potential products include 'metals', 'machinery', 'ferrous metals','chemicals', 'motor vehicles and parts', 'plastic and rubber', 'apparel' and 'jewellery of precious metals' . Since industry and consumers in the Malaysian market both hold value for Indian exporters, the untapped potential gives an impetus to maximizing the efficacy of the CECA.

Figure 24: India's Major Exports to Malaysia [Share (%), 2008-09]



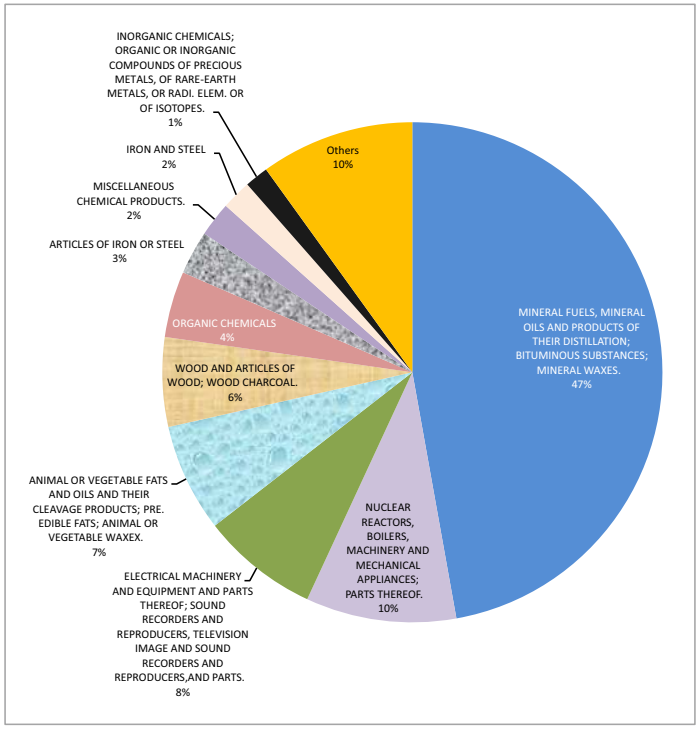
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 25: India's Major Exports to Malaysia [Share (%), 2017-18]



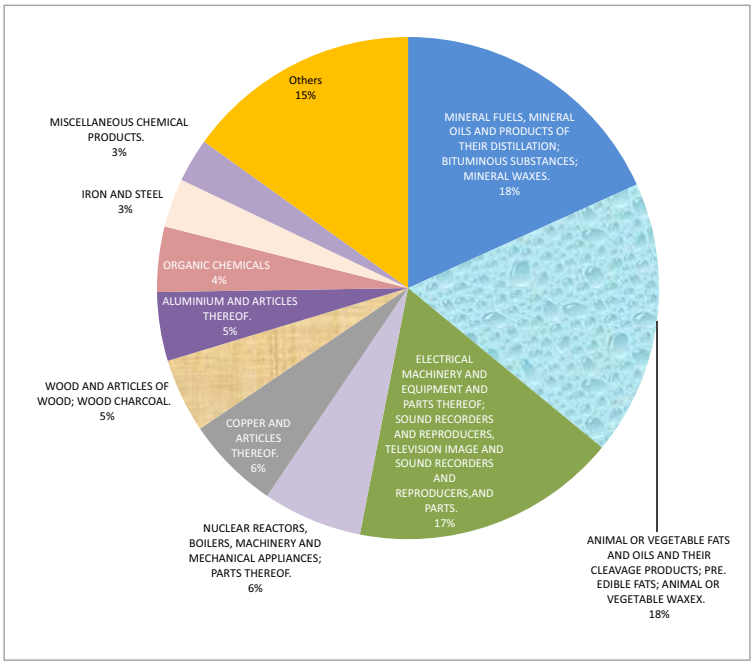
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 26: India's Major Imports from Malaysia [Share (%), 2008-09]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 27: India's Major Imports from Malaysia [Share (%), 2017-18]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 12: India's Major Exports to Malaysia (2017-18, at HS Code 4-digit Level)

		2017-2018		2008-09	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	1,618	28.4	99	2.9
7601	UNWROUGHT ALUMINIUM	773	13.6	98	2.9
202	MEAT OF BOVINE ANIMALS, FROZEN	364	6.4	103	3.0
7403	REFINED COPPER AND COPPER ALLOYS, UNWROUGHT	268	4.7	218	6.4
2902	CYCLIC HYDROCARBONS	219	3.8	54	1.6
7208	FLAT-ROLLED PRODUCTS OF IRON OR NON-ALLOY STEEL, OF A WIDTH OF 600 MM OR MORE, HOT- ROLLED, NOT CLAD, PLATED OR COATED	150	2.6	0	0.0
7901	UNWROUGHT ZINC	121	2.1	81	2.4
703	ONIONS, SHALLOTS, GARLIC, LEEKS AND OTHER ALLIACEOUS VEGETABLES, FRESH OR CHILLED	98	1.7	69	2.0
5201	COTTON, NOT CARDED OR COMBED	62	1.1	11	0.3
8504	ELECTRICAL TRANSFORMERS, STATIC CONVERTERS (FOR EXAMPLE, RECTIFIERS) AND INDUCTORS	55	1.0	27	0.8
2901	ACYCLIC HYDROCARBONS	53	0.9	76	2.2
7113	ARTCLS OF JEWELLERY AND PRTS THEREOF; OF PRCS MTL/OF MTL CLD WTH PRECIOUS METAL	49	0.9	2	0.1
904	PEPPER OF THE GENUS PIPER; DRIED OR CRUSHED OR GROUND FRUITS OF THE GENUS CAPSICUM OR OF THE GENUS PIMENTA PEP	47	0.8	50	1.5
3004	MDCMNTS (EXCL ITMS OF 3002,3005 / 3006) FR THRPUTC/PRPHYLCTC USES IN MEASURD DOSESOR IN PCKNGS FR RTL SALE	46	0.8	17	0.5
8413	PUMPS FOR LIQUIDS, WHETHER OR NOT FITTED WITH A	43	0.8	6	0.2
1202	GROUND-NUTS, NOT ROASTED OR OTHERWISE COOKED, WHETHER OR NOT SHELLED OR BROKEN	40	0.7	37	1.1
1006	RICE	39	0.7	0	0.0
8803	PRTS OF GOODS OF HDG NO.8801 OR 8802	37	0.7	14	0.4
7207	SEMI-FINISHED PRODUCTS OF IRON OR NON- ALLOY STEEL	35	0.6	8	0.2
4107	LEATHER FURTHER PREPARED AFTER TANNING OR CRUSTING, INCLUDING PARCHMENT-DRESSED LEATHER, OF BOVINE (INCLUDING BUFFAL	30	0.5	30	0.9
8481	TAPS, COCKS, VALVES AND SIMILAR APPLIANCES FOR PIPES, BOILER SHELLS, TANKS, VATS OR THE LIKE, INCLUDING PRESSURE-REDUCIN	30	0.5	18	0.5
7202	FERRO-ALLOYS	30	0.5	6	0.2
5407	WOVN FBRCS OF SYNTHTC FILAMENT YARN INCL WOVN FBRCS OBTND FROM MTRLS OF HDG NO.5404	29	0.5	20	0.6
7209	FLT RLLD PRDCTS OF WDTH>= 600MM,COLD-RLLD (COLD-REDUCED),NOT CLAD,PLTD/COATD	29	0.5	9	0.3
6211	TRCK SUITS,SKI SUITS AND SWMWEAR,OTHR GRMNTS	27	0.5	2	0.1

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 13: India's Major Imports from Malaysia (2017-18, at HS Code 4-digit Level)

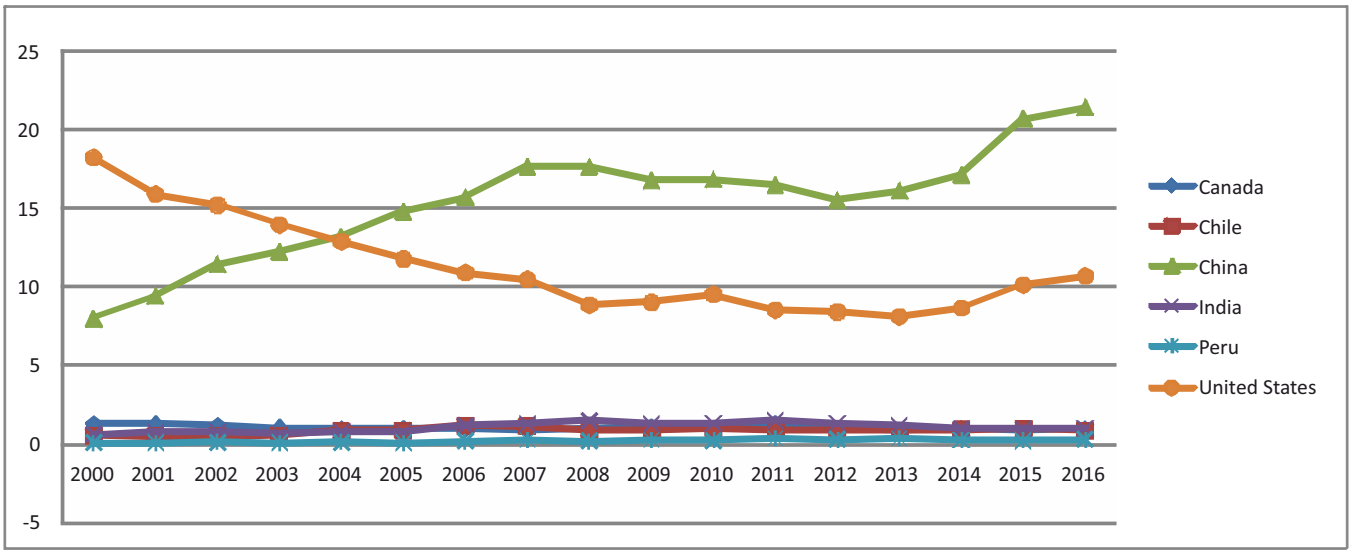
		2017-2018		2008-09	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
1511	PALM OIL AND ITS FRACTIONS, WHETHER OR NOT REFINED, BUT NOT CHEMICALLY MODIFIED	1,529	17.0	468	6.5
2709	PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS, CRUDE	1,387	15.4	2785	38.8
8528	RECEPTION APARATUS,WH/NOT INCORPRTNG RADIOBRODCST RECIVRS/SOUND/VIDEO RCORDNG/ REPRODUCING APARATUS,VIDEO MONITORS	399	4.4	134	1.9
7408	COPPER WIRE	352	3.9	19	0.3
4403	WOOD IN THE ROUGH, WHETHER OR NOT STRIPPED OF BARK OR SAPWOOD, OR ROUGHLY SQUARED	293	3.3	370	5.2
8517	ELCTRCL APARTS FR LINE TELEPHNY/TELGRPHY, INCL TELPHON SETS WTH CORDLS HANDSET CARIER-CURENT LINE SYSTM; VIDEOPHONE	286	3.2	131	1.8
7601	UNWROUGHT ALUMINIUM	250	2.8	8	0.1
8541	DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; PHOTOSENSITIVE SEMICONDUCTOR DEVICES, INCLUDING PHO	237	2.6	23	0.3
8473	PARTS AND ACCESSORIES OTH THN COVERS, CARRYING CASES)SUITABLE FOR USE SOLELY /PRINCIPALLY WITH MACHINES OF HDG 8470 TO 8472	173	1.9	303	4.2
3823	INDSTRL MONOCARBOXYLC FATY ACIDS ACID OILSFROM REFINING INDUSTRIAL FATTY ALCOHOL	172	1.9	140	1.9
8471	AUTOMATIC DATA PROCESSING MACHINES AND UNITS	168	1.9	166	2.3
2915	SATRTD ACYLC MONOCRBOXYLIC ACIDS AND THR ANHYDRTDS,HALIDS,PEROXIDS AND PEROXY ACIDS; THR HALGNTD SLPHNTD NITRTD/NITRS	151	1.7	57	0.8
7204	FERROUS WASTE AND SCRAP; REMELTING SCRAP INGOTS	138	1.5	50	0.7
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	137	1.5	257	3.6
8542	ELCTRNC INTEGRTD CIRCUITS AND MICRO-ASSMBLS	109	1.2	38	0.5
8523	PREPRD UNRECORDED MEDIA FOR SOUND RECRDNG/SMLR RECRDNG OF OTHR PHENOMENA,OTHR THN PRDCTS OF CH.37	96	1.1	11	0.2
7202	FERRO-ALLOYS	95	1.1	1	0.0
7411	COPPER TUBES AND PIPES	89	1.0	16	0.2
7605	ALUMINIUM WIRE	88	1.0	0	0.0
8001	UNWROUGHT TIN	88	1.0	55	0.8
2711	PETRLM GASES AND OTHR GASEOUS HYDRCRBNS	87	1.0	329	4.6
4407	WOOD SAWN OR CHIPPED LENGTHWISE, SLICED OR PEELED, WHETHER OR NOT PLANED, SANDED OR ENDJOINTED, OF A THICKNESS EXCEEDING	84	0.9	2	0.0
9403	OTHER FURNITURE AND PARTS THEREOF	76	0.8	51	0.7
8529	PRTS SUITBL FR USE SOLELY/PRNCPLLY WTH APPRTS OF HDGS NOS 8525 TO 8528	69	0.8	24	0.3
2916	UNSATURATED ACYCLIC MONOCARBOXYLIC ACIDS, CYCLIC MONOCARBOXYLIC ACIDS, THEIR ANHYDRIDES, HALIDES, PEROXIDES AND P	68	0.8	36	0.5

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Republic of Korea

The implementation for the India-Republic of Korea (RoK) CEPA began in 2010. The FTA with RoK represents the Indian foray into FTAs with OECD partners. The CEPA is also of relatively greater depth and has substantial coverage in goods, services and investment. Since Korea is an epitome of the East Asian 'miracle' that featured export led growth in the 1980s, the scope for integration and a vertical flow of competitiveness is high. Yet, as of 2017, India accounted for 1.03% of Republic of Korea's total merchandize import [15]. In comparison China, Japan and Viet Nam account for 20.5%, 11.5% and 3.4% respectively.

Figure 28: Republic of Korea: Import Partner Share (%)



Source: WITS Database

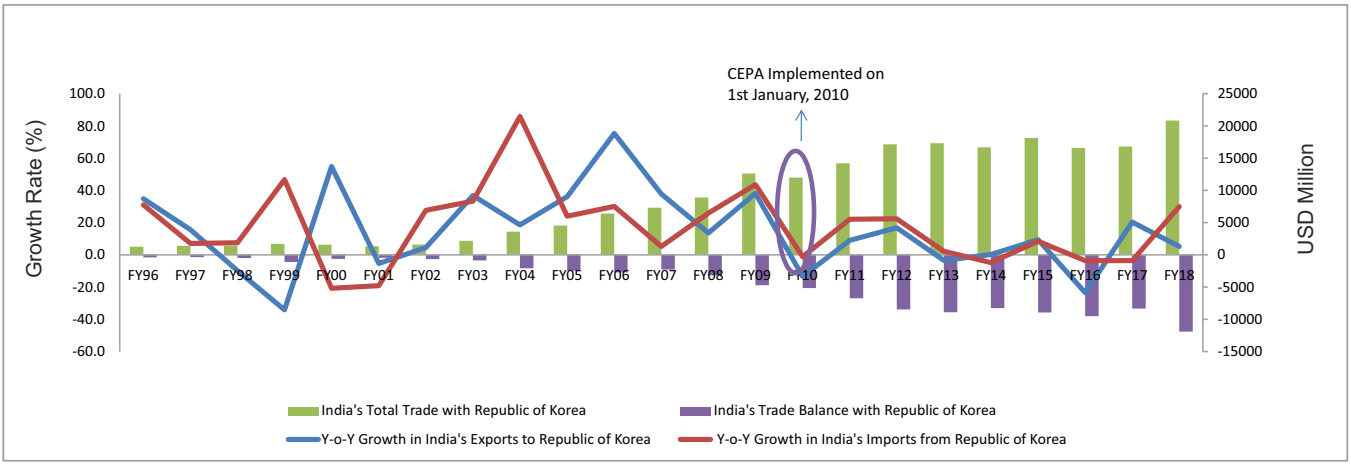
Table 14: Top 10 Indian Export Products (Annual Growth in Value 2013 – 2017): Republic of Korea

Product Code	Product	Growth (% p.a.)
'80	Tin and articles thereof	432
'60	Knitted or crocheted fabrics	273
'37	Photographic or cinematographic goods	94
'19	Preparations of cereals, flour, starch or milk; pastrycooks' products	86
'74	Copper and articles thereof	85
'55	Man-made staple fibres	82
'17	Sugars and sugar confectionery	67
'56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	61
'11	Products of the milling industry; malt; starches; inulin; wheat gluten	57
'64	Footwear, gaiters and the like; parts of such articles	35

Source: ITC Trade Map

[15] Calculations based on ITC import/export data

Figure 29: India's Trade with Republic of Korea



Source: CEIC Database and MVIRDC WTC Mumbai In-house Analysis

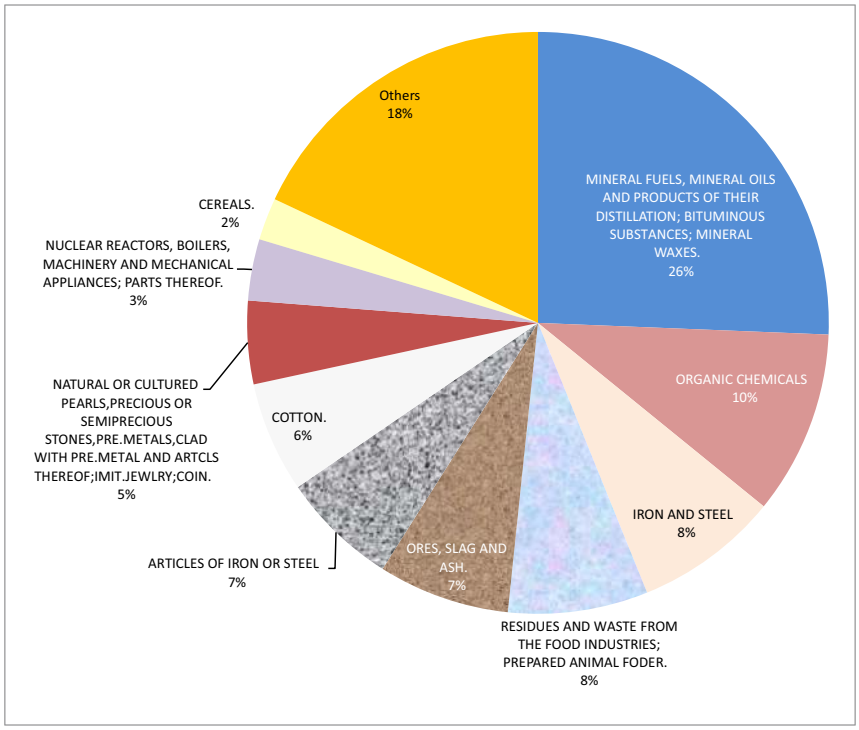
Despite a rise in total trade between India and the Republic of Korea in several years post implementation of the FTA, India has a negative trade balance with the Republic of Korea.

While the Republic of Korea has a well-diversified composition of value-added exports to India, FY18 also saw a share of natural or cultured pearls, precious or semiprecious stones, precious metals, clad with pre. metal and articles thereof, imit. jewellery and coins in its major exports to India; whereas, India's exports to the Republic of Korea have been dominated by metal and metal products in Fy18.

Further, there has been an absence of electrical machinery and equipment and parts thereof, sound recorders and reproducers, television image and sound recorders and reproducers and parts, and vehicles other than railway or tramway rolling stock, and parts and accessories thereof in India's major exports to the Republic of Korea. India needs to develop competence in these products in order to enhance their export share to the Republic of Korea. We can also tap the pharmaceutical products market in the Republic of Korea.

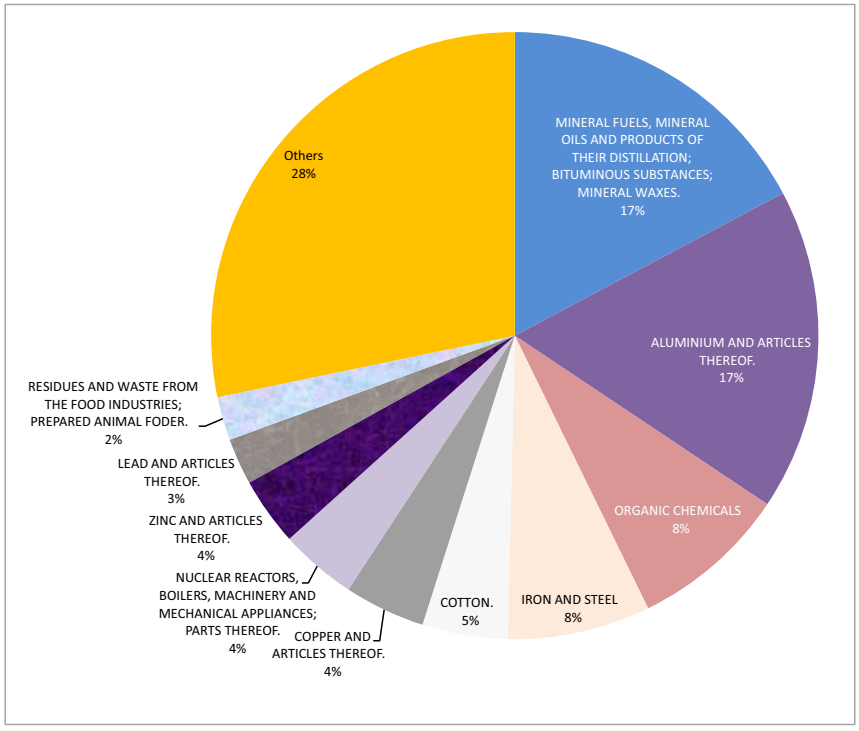
ITC export potential maps forecast and estimated untapped potential of USD 3.2 billion. High potential products include 'chemicals' , 'machinery' , 'pharmaceutical components' , 'motor vehicles and parts' , 'ferrous metals', 'apparel' and 'vegetable residues and animal feed'. Owing to its prowess in value added manufacturing, Republic of Korea offers a valuable link to manufacturing GVCs and maximizing the returns of the CEPA would be a valuable step in that direction.

Figure 30: India's Major Exports to Republic of Korea [Share (%), 2007-08]



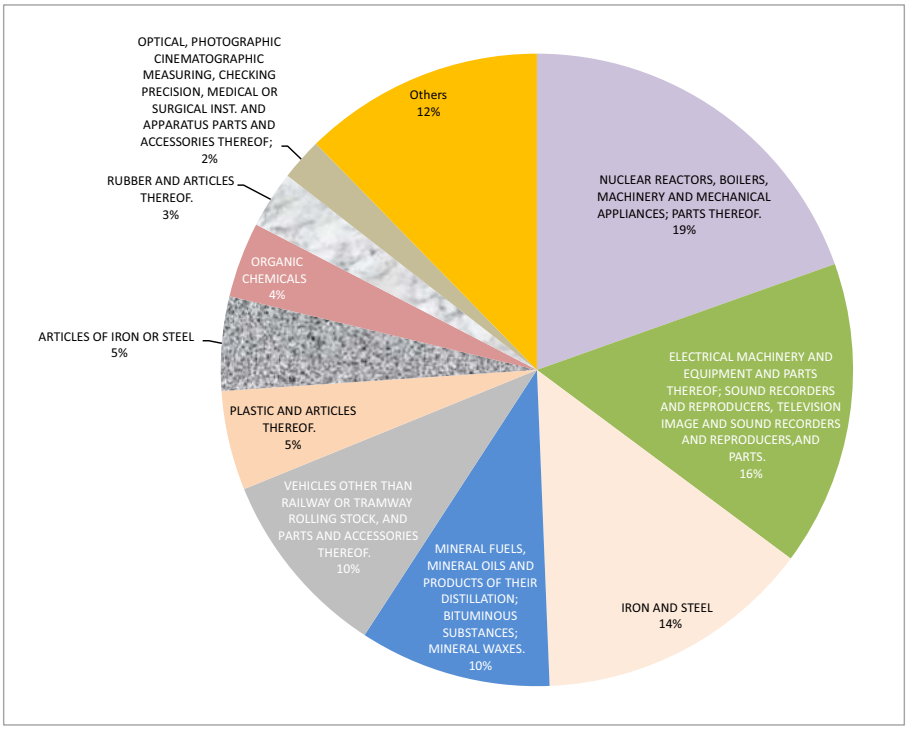
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 31: India's Major Exports to Republic of Korea [Share (%), 2017-18]



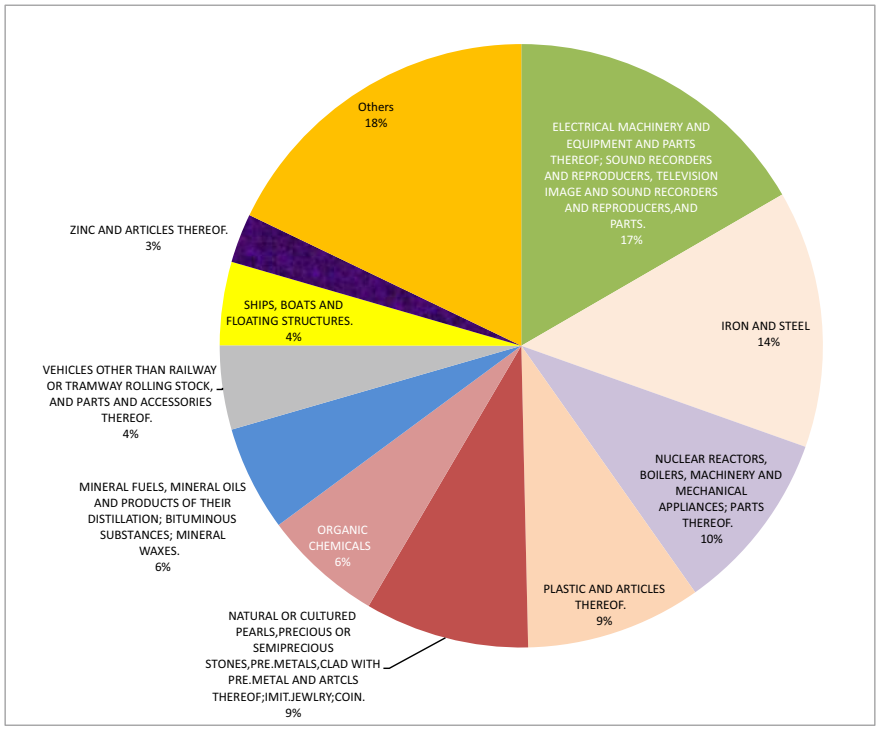
Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 32: India's Major Imports from Republic of Korea [Share (%), 2007-08]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Figure 33: India's Major Imports from Republic of Korea [Share (%), 2017-18]



Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 15: India's Major Exports to Republic of Korea (2017-18, at HS Code 4-digit Level)

		2017-2018		2007-08	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	750	16.8	677	23.7
7601	UNWROUGHT ALUMINIUM	749	16.8	4	0.1
7202	FERRO-ALLOYS	249	5.6	145	5.1
7403	REFINED COPPER AND COPPER ALLOYS, UNWROUGHT	183	4.1	24	0.8
7901	UNWROUGHT ZINC	162	3.6	5	0.2
7801	UNWROUGHT LEAD	110	2.5	0	0.0
5205	COTN YRN(OTHR THN SWNG THRD)CNTNG 85% OR MORE BY WT OF COTON NT PUT UP FR RETL SALE	110	2.5	159	5.6
2601	IRON ORES AND CONCENTRATES, INCLUDING ROASTED IRON PYRITES IRON ORES AND CONCENTRATES, OTHER THAN ROASTED IRO	90	2.0	65	2.3
2306	OIL-CAKE AND OTHER SOLID RESIDUES, WHETHER OR NOT GROUND OR IN THE FORM OF PELLETS, RESULTING FROM THE EXTRACTION OF VEG	74	1.7	78	2.7
3204	SYNTC ORGNC COLRNG MATR W/N CHMCLY DFND	69	1.5	36	1.3
5208	WOVN FBRCS OF COTON CONTNG>=85% BY WT OF COTON WEGHNG NT MORE THN 200 G/M2	66	1.5	2	0.1
8708	PARTS AND ACCESSORIES OF THE MOTOR VEHICLES OF HEADINGS 8701 TO 8705	56	1.3	41	1.4
7102	DIAMONDS, WHETHER OR NOT WORKED, BUT NOT MOUNTED OR SET	54	1.2	30	1.1
2933	HETEROCYCLIC COMPOUNDS WITH NITROGEN	54	1.2	9	0.3
2901	ACYCLIC HYDROCARBONS	49	1.1	10	0.4
2401	UNMANUFACTURED TOBACCO; TOBACCO REFUSE	38	0.9	16	0.5
5402	HIGH TENACITY YARN OF NYLON OR OTHER POLYAMIDES, WHETHER OR NOT TEXTURED	38	0.8	1	0.0
1207	OTHER OIL SEEDS AND OLEAGINOUS FRUITS, WHETHER OR NOT BROKEN	36	0.8	36	1.3
7222	OTHER BARS AND RODS OF STAINLESS STEEL; ANGLES, SHAPES AND SECTIONS OF STAINLESS STEEL	35	0.8	32	1.1
9032	AUTMTC REGLTNG/CONTRLNG INSTRMNTS AND APRTS	29	0.6	0	0.0
2304	OIL-CAKE AND OTHER SOLID RESIDUES WHETHER OR NOT GROUND OR IN THE FORM OF PELLETS, RESULTING FROM THE EXTRACTION OF SOY	28	0.6	144	5.0
8414	AIR/VACUUM PUMPS,AIR/OTHR GAS COMPRSRS AND FANS;VNTLTNG/RCYCLNG HOODS INCRPRTNG A FAN,W/N FITTED WITH FILTERS	27	0.6	4	0.1
2904	SULPHONATED, NITRATED OR NITROSATED DERIVATIVES OF HYDROCARBONS, WHETHER OR NOT HALOGENATED	26	0.6	19	0.7
8408	COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINES (DIESEL OR SEMI-DIESEL ENGINES)	26	0.6	2	0.1
4107	LEATHER FURTHER PREPARED AFTER TANNING OR CRUSTING, INCLUDING PARCHMENT-DRESSED LEATHER, OF BOVINE (INCLUDING BUFFAL	25	0.6	9	0.3

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Table 16: India's Major Imports from Republic of Korea (2017-18, at HS Code 4-digit Level)

		2017-2018		2007-08	
HS Code	Commodity	Value (USD Million)	Share in Total (%)	Value (USD Million)	Share in Total (%)
7114	ARTCLS OF GOLDSMTHS/SLVRSMTHS WARES AND PRTS OF PRCS MTL/MTL CLD WTH PRCS MTL	1,348	8.2	0	0.0
8517	ELCTRCL APARTS FR LINE TELEPHNY/TELGRPHY, INCL TELPHON SETS WTH CORDLS HANDSET CARIER-CURENT LINE SYSTM; VIDEOPHONE	1,098	6.7	200	3.3
7208	FLAT-ROLLED PRODUCTS OF IRON OR NON-ALLOY STEEL, OF A WIDTH OF 600 MM OR MORE, HOT- ROLLED, NOT CLAD, PLATED OR COATED	874	5.3	348	5.8
8708	PARTS AND ACCESSORIES OF THE MOTOR VEHICLES OF HEADINGS 8701 TO 8705	732	4.5	556	9.2
2710	PETROLEUM OILSAND OILS OBTND FRM BITMNS MNRLOTHER THAN CRUDE PRPN NES;CNTNG70% OR MOREBY WEIGHT OF THESE OILS	666	4.1	574	9.5
8542	ELCTRNC INTEGRTD CIRCUITS AND MICRO-ASSMBLS	528	3.2	99	1.6
7210	FLT-RLLD PRDCTS OF IRON/NON-ALOY STEEL OF WDTH >=600 MM,CLAD,PLATD/COATD	452	2.8	95	1.6
7901	UNWROUGHT ZINC	430	2.6	69	1.1
7225	FLT-RLLD PRDCTS OF OTHR ALLOY STL OF WDTH 600 MM OR MORE	359	2.2	105	1.7
2917	PLYCRBOXYLC ACDS,THR ANHYDRDS,HALIDES, PEROXIDES ANDPEROXYACDS,OTHR HALGNTD SLPHNTDNITRATED OR NITROSATED DERIVATIVES	318	1.9	61	1.0
3904	POLYMERS OF VINYL CHLORIDE OR OF OTHER HALOGENATED OLEFINS, IN PRIMARY FORMS	302	1.8	31	0.5
8908	VSSLS AND OTHR FLOATNG STRCTRS FR BREAKNG UP	297	1.8	#N/A	#N/A
4002	SYNTHETIC RUBBER AND FACTICE DERIVED FORM OILS, IN PRIMARY FORMS OR IN PLATES, SHEETS OR STRIP; MIXTURES OF ANY PRO	276	1.7	124	2.1
8905	LIGHT-VSSLS,FIRE-FLOATS,DREDGERS,FLOATING OTHR SMLR VSSLS WHRE NAVGABLTY IS SBSDRY TO THR MN FNCTN;FLTNG DOCKS;FLTNG PL	218	1.3	0	0.0
8901	CRUISE SHIPS, EXCURSION BOATS , FERRY- BOATS, CARGO SHIPS, BARGES AND SIMILAR VESSELS FOR THE TRANSPORT OF PERSONS	214	1.3	8	0.1
3901	POLYMERS OF ETHYLENE IN PRIMARY FORMS	206	1.3	67	1.1
3907	POLYACETALS, OTHER POLYETHERS AND EPOXIDE RESINS,	195	1.2	47	0.8
3903	POLYMERS OF STYRENE, IN PRIMARY FORMS	186	1.1	30	0.5
8431	PRTS SUITBL FR USE SOLELY/PRNCPLY WTH THE MCHNRY OF HDGS.NOS.8425 TO 8430	184	1.1	33	0.5
7801	UNWROUGHT LEAD	164	1.0	40	0.7
8480	MOULDING BOXES FOR METAL FOUNDRY; MOULD BASES; MOULDING PATTERNS; MOULDS FOR METAL (OTHER THAN INGOT MOULDS), METAL CA	152	0.9	55	0.9
8536	ELCTRCLS APPRTS FR SWTCHNG/PRTCTNG ELCTRCLCIRCUITS ETC.(E.G.SWTCHS RELAYS ETC.) FOR A VOLTAGE NOT EXCDG 1000 VOLTS	149	0.9	44	0.7
2709	PETROLEUM OILS AND OILS OBTAINED FROM BITUMINOUS MINERALS, CRUDE	134	0.8	0	0.0
2907	PHENOLS; PHENOL-ALCOHOLS	132	0.8	12	0.2
7209	FLT RLLD PRDCTS OF WDTH>= 600MM,COLD-RLLD (COLD-REDUCED),NOT CLAD,PLTD/COATD	126	0.8	157	2.6

Note: #N/A:- Not Available

Source: Ministry of Commerce & Industry, Government of India and MVIRDC WTC Mumbai In-house Analysis

Diagnosis

As the data above suggests, Indian shares in partner country imports are relatively low and the export potential (for goods) is promising. However, in order to realize this potential, India's trade policy needs to pay heed to the tale behind the dwindling numbers.

IMPORTS HAVE GROWN AT A PACE GREATER THAN EXPORTS IN RECENT YEARS

FTA PARTNER	MEDIAN FOR GROWTH IN VALUE 2013 – 2017, % p.a. (EXPORTS)	MEDIAN FOR GROWTH IN VALUE 2013 – 2017, % p.a. (IMPORTS)
SINGAPORE	-7	-3
JAPAN	-2	5
SRI LANKA	1	3
MALAYSIA	-5.5	4
REPUBLIC OF KOREA	3.5	4

Calculations based on data from ITC Trade Map

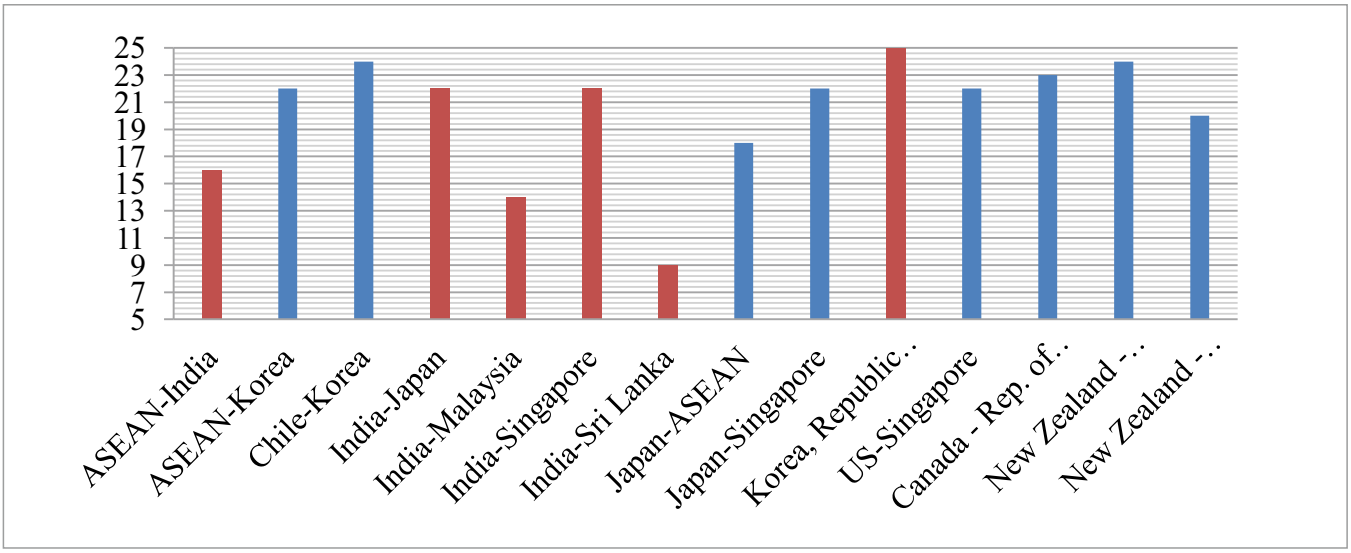
The table above shows median values for percentage growth in value for exports and imports. The use of the median as measure of central tendency is valuable for two reasons; firstly it is not impacted by strength of any single variable in the way the mean of a distribution is impacted and secondly it shows that if 'x' is the median value, 50% of the values are above 'x' and the remaining are below. The latter is the primary objective behind using the median in this paper. The data shows that for all FTA partners selected for the study, the median for imports is greater than the median for exports. This could signal that compared to exports, a greater number of imported commodities have seen a greater rise in value (% p.a.) between 2013 and 2017. Thus, export growth (value terms) has been slower than import growth (value terms).

AGREEMENT DEPTH

As the use of FTAs, PTAs, CEPAs and CECAs increases across the globe, their content becomes equally if not more valuable than their quantity. Evaluating the content of trade agreements must be guided by a clear benchmark against which the quality can be gauged. One such tool is the 'depth' of these agreements. Building on the methodology developed by Horn, Mavroidis and Sapir (2010), the World Bank released data on 'depth of RTAs' in 2016. The data measures the number of provisions (legal obligations) in the agreement. Higher numbers of provisions are assumed to signal a deeper level of integration in areas such as intellectual property, competition policy and ROO rationalisation. The theoretical implication here is that deeper agreements are more likely to result in value chain optimization across regions.

The figure below measures Indian trade agreement depth for the selected sample for WTO +LE provisions. These are provisions that are already covered under the WTO mandate and are legally enforceable. The data shows that for these particular provisions, agreements with Japan, Republic of Korea and Singapore show greater depth as compared to those with Malaysia, ASEAN and Sri Lanka owing to which the latter show relative deficit in depth. For instance, Japan has a deeper agreement with ASEAN and New Zealand has a deeper agreement with Malaysia as compared to India.

Figure 34: WTO + LE Provision Index

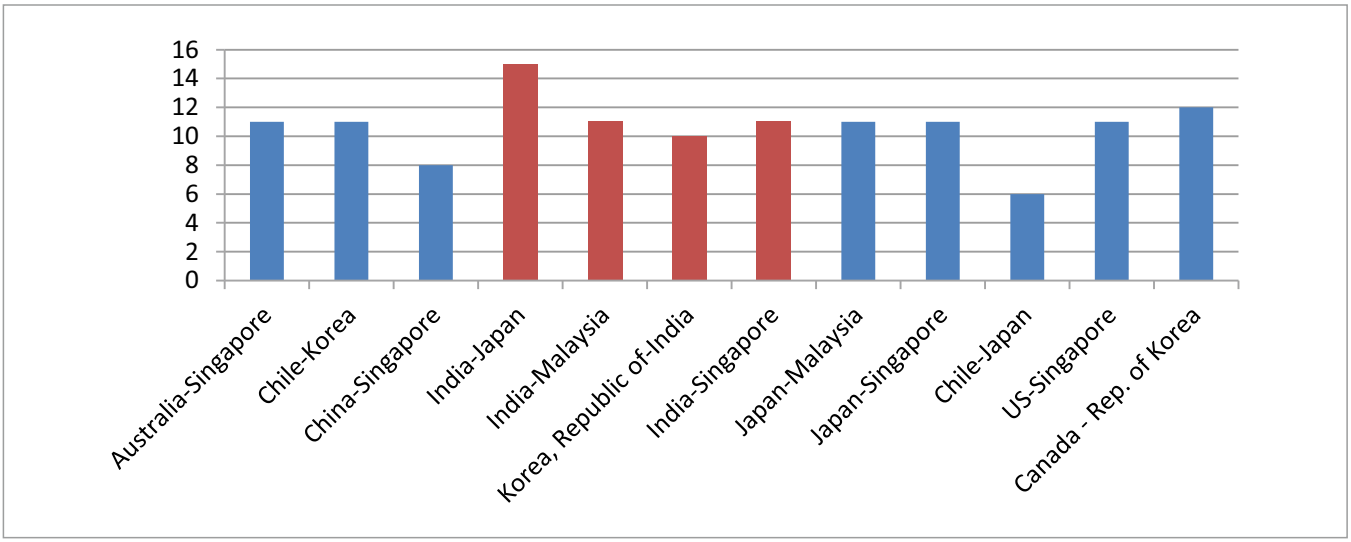


Source: World Bank

Analyzing the depth of trade agreements would also ideally include a foray into measures that go beyond WTO commitments since these would indicate a level of integration greater than what has already been committed under a nation's WTO commitments. For the purpose of this, the same WB databank can be used.

The figure below shows depth for WTO – X LE provisions. These are provisions that go beyond WTO commitments and are legally enforceable under the terms of the particular bilateral treaty. Such provisions pertain to issues such as competition policy, agriculture, labour market regulations, anti-corruption regulations, among others. The figure shows that in WTO – X LE commitments, Indian agreements with Japan, Malaysia, Singapore and Republic of Korea appear to have competitive depth when compared to agreements signed by countries such as Chile, Australia and US.

Figure 35: WTO - X LE Provision Index



Source: World Bank

Research suggests that countries choose deeper trade agreements in order to capture space and opportunities in global value chains. Empirical evidence suggests that, at a sectoral level, each additional provision in the agreement increases bilateral trade in parts and components (regarded as an indicator of value added trade flows) by 0.3 percent [16]. Thus, in the context of globalized production, deeper trade agreements are of value. As shown above, India shows a degree of competitive strength in legally enforceable commitments that go beyond WTO commitments. However, these are concentrated in a few trade partners. Further, for WTO + LE commitments, only agreements with Japan, Singapore and Republic of Korea have competitive depth while agreements with Malaysia, ASEAN and Sri Lanka have relatively low depth.

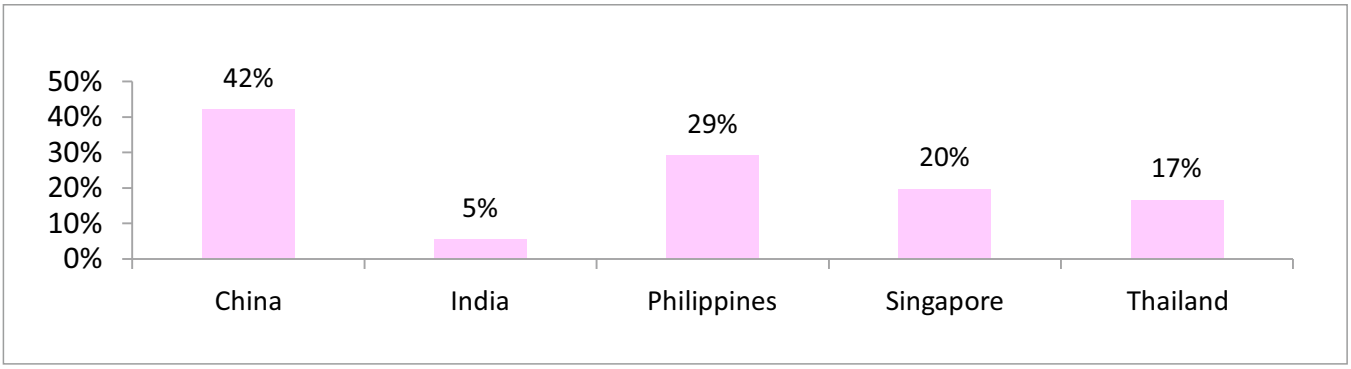
INCOME ELASTICITY OF EXPORTS

Research suggests that the stagnation of Indian exports in the years following 2011 could be explained by the income elasticity of Indian exports [17]. Raissi and Tulin, calculated a long term income elasticity of 1.5 for the Indian export basket composition, ranging from primary goods to medium value added exports. This means that exports from India are dependent on 2 variables; degree of change in income and relative price competiveness.

In this context, the Real Effective Exchange Rate (REER) constitutes yet another key variable in determining the flow of Indian exports. Changes in REER relative to competitors can significantly alter competitiveness of Indian exports in partner markets by overturning the net impact of preferential tariff treatment. However, the REER interacts with other variables and therefore must be subject to conjectural analysis. The study by Raissi and Tulin found that depreciations in REER would not produce a desired acceleration in exports unless 'supply side bottlenecks' were addressed. These supply side challenges include inefficient energy input and high compliance costs for obtaining 'Certificates of Origin'. Such challenges hinder the growth of exports by restricting the degree of price competitiveness .

While relative price competitiveness is a crucial facet of overall competitiveness of exports, it is not the only determinant of the outcome, for instance India has shown a relatively less aggressive rise in REER as compared to China, Philippines, Thailand and Singapore between 2006 and 2017 [18]. A competitive exchange rate does not guarantee an increase in exports.

Figure 36: Change in REER between 2006 and 2017



Source: Bank for International Settlements

[16] Laget, E., Osnago, A., Rocha, N., Ruta, M. June 2018. World Bank Group Policy Research Woking Paper: Deep Trade Agreements and Global Value Chains. Washington D.C.
[17] Raissi, M. Tulin, V. 2015. IMF Working Paper: Price and Income Elasticity of Indian Exports — the Role of Supply-Side Bottlenecks. Washington D.C.
[18] Annual Report 2017 – 2018, Reserve Bank of India. pp 74

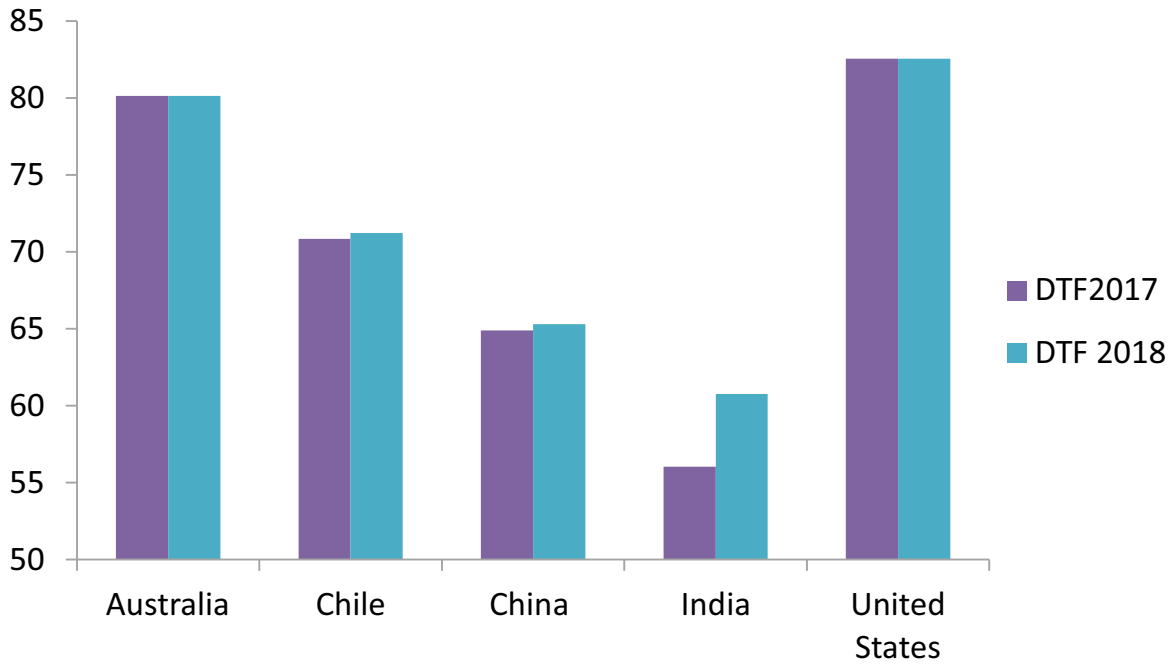
REGULATORY ENVIROMENT

While trade agreements provide alternative paths designed to place exporters at an advantage, supply side bottlenecks can have an adverse effect on their impact. The first of these bottlenecks that this report discusses is the regulatory environment.

A crucial determinant of export competitiveness is the regulatory environment that exporters operate in. The interplay of business and policy could impact various stages of business development from conception to operations. Thus, assessing relative and absolute improvements in the Ease of Doing Business data is crucial is evaluating export competitiveness.

The figure below shows the 'Distance to Frontier' (DTF) scores for India in comparison with a select sample of countries [19]. DTF scores represent the gap between the current regulatory performance of a chosen country and best practices across Doing Business indicators. The scores are calculated on a scale from 0 – 100 where 100 represents the frontier (best practice). As the figure below shows, India has the lowest DTF score within the sample. However, the greatest degree of change in DTF over the last two years, within the sample, was seen in India. From 2005 – 2013, India's DTF improved by 10.6% [20] (within the same time period, China's DTF improved by 14.3%). While this may indicate policy momentum (albeit relatively less), it would be wise to identify areas through which this momentum can be channelized to yield optimal outcomes for the economy.

Figure 37: Ease of Doing Business: Distance to Frontier

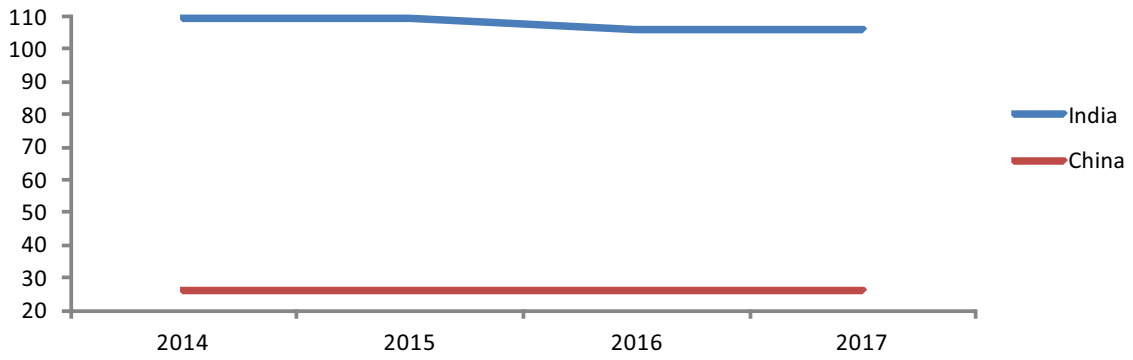


Source: Doing Business Database, World Bank

[19] Countries selected are those that have agreements with markets India also has agreements with. For instance, Chile has trade agreements with Republic of Korea and Japan. The same sample is also used in the LPI analysis in the report.
[20] World Bank, 2013. Doing Business: Smarter Regulations for Small and Medium-Size Enterprises

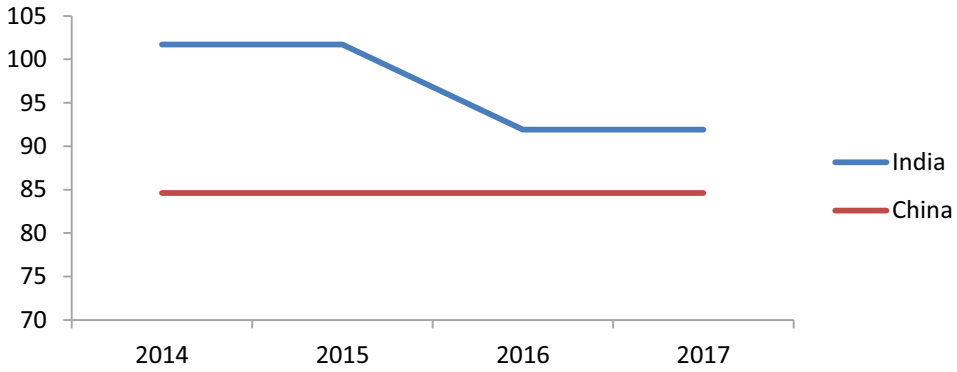
While multiple domains of the regulatory environment impact the competitiveness of exports, this section shall highlight trends from three such domains using data from the Doing Business Database namely 'border compliance', 'cost to export' and 'reliability of supply and transparency of tariff index (power sector)'.

Figure 38: Border Compliance (Hours)



'Border Compliance' in India reduced from 109 hours in 2014 to 106 in 2017. While the reduction is noteworthy, it must be viewed relatively. Comparisons with China show that 'Border Compliance' in China stood at 26 hours in 2017 with marginal changes since 2014. Thus, the absolute numbers when viewed relatively are indicative of an uncompetitive regulatory regime.

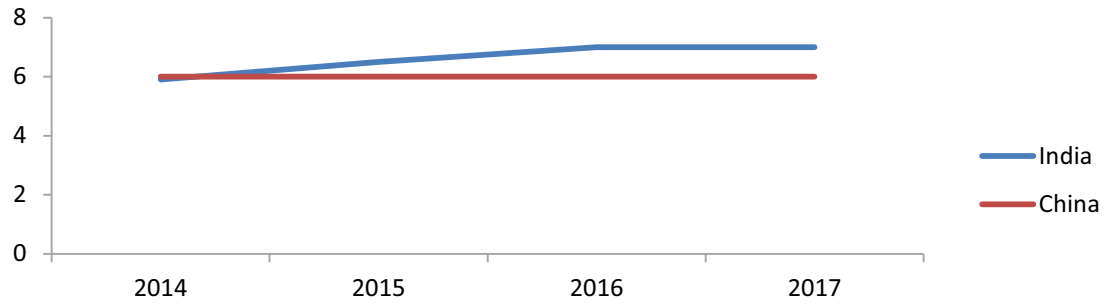
Figure 39: Cost to Export: Documentary Compliance (USD)



Source: Doing Business Database, World Bank

A similar trend can be seen when compliance costs for export related documentation are compared for India and China. While India saw a reduction is absolute terms from USD 102 in 2014 to USD 92, it still remains higher than China's absolute value in 2018 that stood at USD 85.

Figure 40: Reliability of Supply and Transparency of Tariff Index [Power Sector (0-8)]



Source: Doing Business Database, World Bank

Reliable supply of power at affordable tariff is another determinant of export competitiveness of a nation. In the realm of 'reliability of supply and transparency of tariff (power sector)', India appears to have shown improvement in not only absolute but also in relative terms. While China's score on the index for 2018 was 6, India's score was 7, up from 5.9 in 2014.

Thus, while improvements in regulatory environment have been made in the recent past, a focus on relative performance is crucial to holistically assess such improvements. Transmuting policy momentum into policy impact will therefore create an additional avenue from which gains in export competitiveness can accrue from trade agreements.

LOGISTICS SECTOR

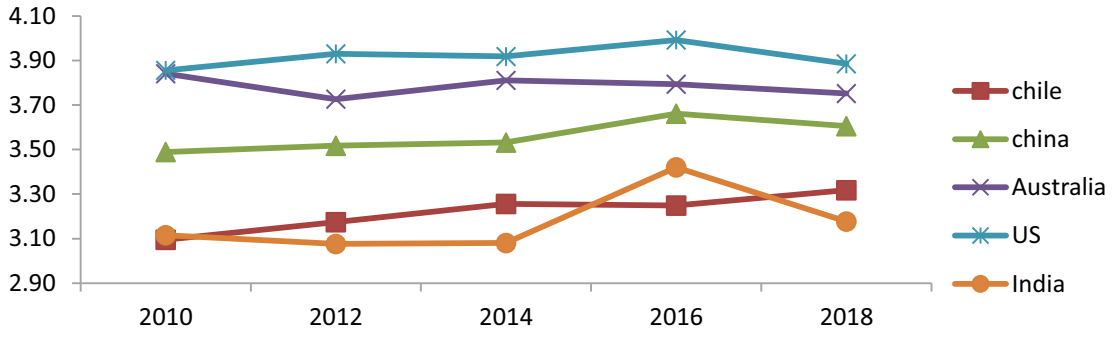
A market that seeks exponential rise in export volume must have supplementary infrastructure that supports such aspirations. One such example is the logistics sector. Any effort at explaining the decreasing export value or market shares must include an inward introspection beginning with the logistics sector since an efficient logistics sector will have a multiplier effect resulting in cost efficiencies for exporters. A NITI Aayog report estimates the logistics costs in India to be almost double the cost of a developed market [21]. According to the report, the Indian logistics sector is riddled with inefficiencies and challenges such as overlapping regulatory instruments, high operational costs and lack of inter-modal integration.

In the World Bank's Logistics Performance Index', India ranks 44th while China ranks 26th, Republic of Korea ranks 25th and Vietnam ranks 39th. It is then clear that the underperforming logistics sector in India hampers its ability to boost export performance and market share even when preferential treatment is accorded through trade agreements.

The spatial fragmentation of production is a vital component of the underlying foundation of international economic integration. The ability of a country to connect to and derive value from global value chains is determined, in part, by the reliability of its supply chain and the competitiveness of its logistics sector. Therefore, it is of value to comparatively analyze the movement in LPI scores of countries to gauge relative logistics competitiveness. In the figure below, the countries selected are those that have agreements with markets India also has agreements with. For instance, Chile has trade agreements with Republic of Korea and Japan. Australia and China have agreements with ASEAN and Singapore.

[21] NITI Aayog, 2018 A Note on Free Trade Agreements and their Cost.

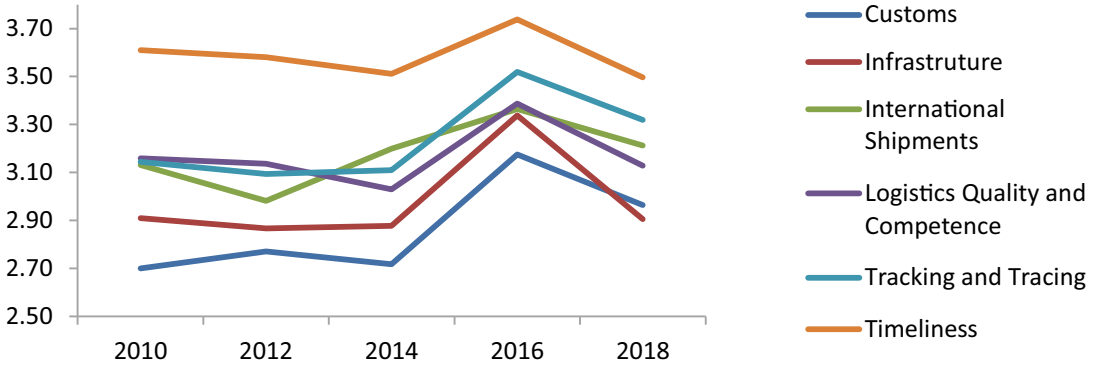
Figure 41: Logistics Performance Index of Select Countries



Source: World Bank (Connecting to Compete 2018)

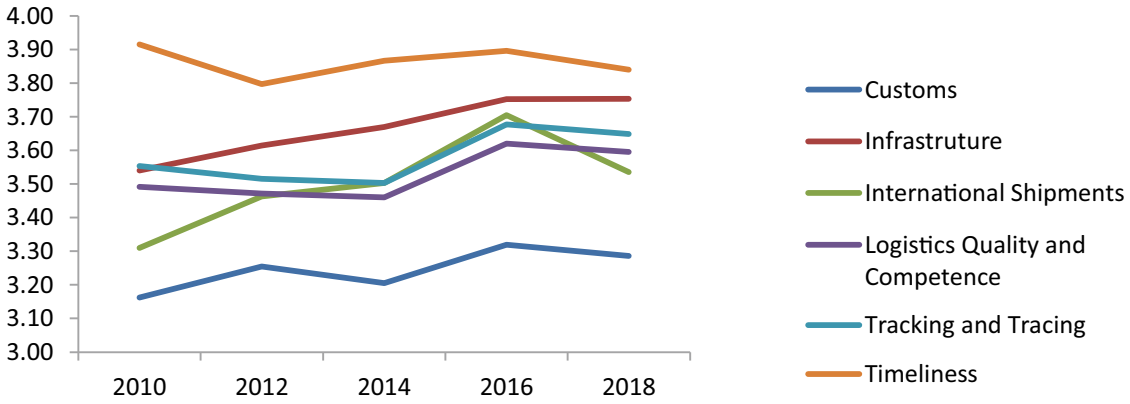
As the data shows, India ranks low as compared to its competitors in partner markets. From 2014 until 2016, India's score showed a growth trajectory and even surpassed Chile. However, in the years that followed, this trend reversed. What then, explains the fall in India's logistics competitiveness?

Figure 42: Logistics Performance Perception Parameters for India



Source: World Bank, Logistics Performance Index Database

Figure 43: Logistics Performance Perception Parameters for China



Source: World Bank, Logistics Performance Index Database

The LP assesses industry perception of logistics performance based on customs, infrastructure, international shipments, logistics quality and competitiveness, tracking and tracing and timeliness. Industry perception and expectations as reflected in scores across domains in the period from 2014 until 2016 show positive growth while scores for all domains see a decline post 2016. This indicates a change in relative perceptions and expectations, which in turn could indicate that relative to India, other emerging markets witnessed widening/increase in scale, direction and speed of improvements. Additionally the scores could also embody a bias towards import oriented logistics systems owing to the presence of a large domestic market[22]. In the case of China too, such falls in scores post 2016 can be seen. Yet, China's scores in most domains do not fall lower than the Indian scores in the corresponding domain. For India the sharpest decline in relative performance can be seen in infrastructure, timeliness and logistics quality.

For instance, it has been argued that India's transport infrastructure capacities are inadequate to meet the evolving needs of consumers and producers alike [23]. The McKinsey report from where this argument is drawn also posits that logistics infrastructure in India is concentrated. The report suggests that the use of roads for logistics in India is roughly three times the use in China owing to China's capacity to utilize inland waterways for its logistics needs. The report estimates that nearly USD 45 billion is lost per year due to infrastructural inefficiencies in the logistics sector.

There have been significant changes in the policy space for logistics. The implementation of the GST is estimated to lower regulatory particularly taxation barriers between states. The logistics sector has been granted infrastructure status expanding its access to wide avenues of credit including External Commercial Borrowing (ECB) and India Infrastructure Financing Company Limited (IFCL). Such momentum can yield positive results if integrated solutions (solutions created in the intersection of regulatory efficiency, infrastructure and technology) are sought for the logistics sector.

Utilization of FTAs

The ability of FTAs to provide scaled benefits to participants is dependent upon the utilization of the instruments by firms in the participating countries. According to the NITI Aayog, the utilization rate of FTAs in India is in the bracket of 5% - 25% at an aggregate level. (in comparison, over 80% of Thailand's exports utilize the ASEAN-India FTA). Additionally, as mentioned earlier in the paper, the trend in growth for exports going to FTA partners has not outperformed exports to non-FTA partners. In fact, the growth has been largely parallel [24]. According to the study conducted by the NITI Aayog, such low rates of utilization could be attributed to low margins of preference, high compliance costs and lack of publicly accessible information. Thus, an enormous opportunity exists for promoting and facilitating FTA utilization.

Margins of preference and negative/positive list expansion can shape incentives that affect utilization rates. For instance, in the context of the Indo-ASEAN FTA, NITI Aayog reported that *'Thailand, Philippines, Myanmar, Brunei and Vietnam kept more number of tariff lines under exclusion compared to India'.* If low margins of preference are accorded to high export potential goods or a significant portion of the goods exported from India are placed under sensitive lines, the incentives for firms to utilize FTA routes for exports are distorted.

[22] World Bank, 2018, Connecting to Compete. The document includes guidelines on interpreting a perception based survey such as the LPI from where this insight has been drawn
[23] Building India : Transforming the Nation's Logistics Infrastructure
[24] NITI Aayog, 2018 A Note on Free Trade Agreements and their Cost.

MAKING FTAs WORK: POLICY RECOMMENDATIONS

The goals and objectives laid out in 'Foreign Trade Policy 2015 – 2020' are as relevant as they are requisite. Particularly, the following 3 goals are vital;

1. Developing export competitiveness
2. Diversifying the export basket
3. Reducing transaction costs

Keeping these three goals in mind, the following recommendations can be made:

- While negotiating new agreements or deepening existing ones, markets for high value-added manufacturing must be opened up and secured. Deeper trading agreements are a step in that direction. Achieving greater export output in high value-added manufacturing has historically been a crucial component of convergence. Additionally, this can also lead to a rising demand in labour-intensive sectors from which the former source their inputs thereby creating positive spill-overs.

- While renegotiating existing arrangements, a focus needs to be placed on extending margins of preference and liberalizing tariff lines for HS codes with high export potential. When high potential exports are placed under the sensitive track or the margins of preference are low, the incentives for exporters to utilize FTA/RTA/CEPA/CECA provisions are displaced and the net effect on trade flows post the agreement will be negative. Thus, a degree of reciprocity in tariff liberalization is imperative.

- Since a bulk of Indian exports are from labour intensive manufacturing, trade diversion effects in developed markets (the probability of higher margins of preference for imports from LDCs) must be accounted for while negotiating FTAs/RTAs with developed markets.

- Indian trade policy should leverage its trade relations to facilitate an inward flow of best practices and competitiveness. This can be achieved by integrating the Indian quality infrastructure with those of partner countries through MRAs. This will not only subject underperforming sectors to higher product quality standards and best practices but also restrict the effect of Non-Tariff Barriers (NTBs) on Indian exports. Finally, MRAs can utilize quality infrastructure to prevent the dumping of low quality inputs into Indian markets.

- The logistics sector regulatory overhaul must be expedited and implemented. The focus of the reforms needs to be on producing an 'end-to-end' flow of shipment as compared to a 'point-to-point' flow. A competitive logistics market can provide high quality services at competitive prices, which could boost exports. Thus, providing the regulatory framework for a competitive logistics market is of immense value. Greater market share for manufacturing exports tend to accrue to those countries where services as a value added component have been most efficient.

- Reducing the compliance and administrative costs for exporters who wish to utilize the FTA/PTA/CEPA/CECA routes must be prioritized. It must be recognized that export promotion organizations have a vital role in ensuring a greater utilization rate. Such organizations could help in disseminating critical information about trade agreements and the benefits that accrue from their utilization. Facilitating a flow of information to SMEs could also yield higher exports output.

SUMMARY

DIAGNOSIS	POLICY RECOMMENDATIONS
▪ The rate of growth for imports from partner markets exceeds the rate at which Indian exports to partner markets have grown.	▪ Market access for an export basket with a greater share of value added trade must be secured. An upward movement of Indian exports along the value chain must be prioritized.
▪ In terms of architecture, Indian trade agreements could benefit from greater depth (where such depth does not already exist).	▪ Reciprocity in the expansion of margins of preference and the expansion of margins for high potential products where such margins are negligible or do not exist.
▪ The income elasticity of exported products make Indian export earnings sensitive to changes in global demand, REER fluctuations and relative price competitiveness.	▪ Efforts to integrate quality infrastructure through MRAs in diverse sectors could facilitate an inward flow of competitiveness through higher standards and productivity benchmarks.
▪ Export oriented facets of India's regulatory environment such as 'cost to export' and 'time to export' have seen absolute gains but remain relatively low thus affecting competitiveness.	▪ A relative assessment of improvements in the regulatory environment is crucial in holistically assessing its impact on exporters.
▪ The logistics sector is vital to the growth trajectory of export oriented production. India's low rank on the Logistics Performance Index casts a looming shadow over export growth especially when viewed comparatively.	▪ The competitiveness of the logistics sector is of critical importance for export growth. Facilitating an 'end-to-end' flow in the sector is thus vital.
▪ The percolation of benefits of trade agreements to firms is dependent on how many firms choose to use the alternative route. These numbers are relatively low reportedly due to lack of awareness and low margins of preference.	▪ Reducing compliance costs and increasing awareness about ROO provisions and requirements for FTAs, PTAs, CECAs and CEPAs could boost utilization rates

Gatekeepers of Global Commerce: Rules of Origins in Free Trade Agreements

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Rules of Origin (RoO) are gatekeepers of global commerce. They are rules that are in place to decide whether a traded product was made in a particular country or not. Depending on that decision a product enters an importing country with full tariffs, or with less or zero tariffs. Different rules are applied in different trade agreements thereby creating a complex set of rules, which makes it difficult for traders to comply with. This note describes the different RoO in Free Trade Agreements, underlines the ways in which they can restrict trade and discusses implications for policy-makers.

Introduction

Rules of Origin (RoO) are the set of conditions required to determine country of origin for a traded product. They are important in global commerce today as most manufactured commodities are not made wholly in a single country. Thus rules are needed to determine where a particular product is made. This is necessary for various reasons e.g. to determine a country of origin label ("Made in" labelling), to help in compiling trade statistics and for applying various commercial policies (like tariffs and non-tariff measures). Each of these trade regulations need differentiating between foreign goods according to their country of origin and RoO helps in determining that. Thus these rules perform multi-dimensional roles in international commerce.

We focus on one such dimension – the role of RoO in Free Trade Agreements (FTAs), where countries liberalise trade among themselves by removing or lowering tariffs on select traded products. Such products are eligible for zero or reduced tariffs in an importing member of the FTA only if they 'originate' in the exporting member of the FTA. RoO incorporated in the text of a trade agreement gives a guideline whether such traded products have indeed 'originated' in the exporting member of the FTA.

RoO are used to decide whether for an imported product the importer will pay the most favoured nation (MFN) tariff or preferential tariffs (less than MFN or zero tariffs) under the FTA. RoO, thus, become gatekeepers to an FTA. If a traded product satisfies the rules it gains entry into the FTA market at zero or reduced tariffs; if it does not, it can still enter the market, but has to pay full MFN tariffs.

Apart from determining what tariff will be applied on a product, RoO serve another important function in FTAs: they are the instruments to check trade deflection. In a FTA, members maintain their own external tariffs. Hence, tariffs for the same imported product may differ between member countries. In this setting, in the absence of RoO, a commodity can enter the country with the lowest tariff on it and get re-exported to other countries in the FTA to take advantage of the tariff differential. This is known as trade deflection. RoO prevent such simple transhipment of goods by requiring products to 'originate' in exporting member countries.

Thus we find that RoO are necessary for a FTA to function effectively. However, by their design these necessary rules can restrict trade, which the FTA in the first place was trying to liberalise. This paper is intended as a basic introduction to RoO in FTAs. For a comprehensive guide to RoO please see Palmeter (1993), Vermulst et al (1994), Krishna and Krueger (1995) Estevadeordal and Suominen (2004), Brenton and Imagawa (2005), Inama (2009) and Deardorff (2018).

The Rules

To understand the rules let us start with an example from Jha (2013): if a biscuit is made in Indonesia using domestic eggs, imported flour (Turkey), imported refined sugar (Thailand), imported butter (New Zealand) and Belgian chocolate and then exported to China how will the Chinese customs determine the exact country of origin for the biscuit[2]?
If the biscuit satisfies the RoO of the ASEAN-China Free

[1] The opinions expressed here are the sole responsibility of the author and should not be considered as reflecting the views or carrying the approval of DIT or the British High Commission in India. Responsibility of any errors lies solely on the author, who can be contacted at sejuti.jha@gmail.com
[2] Though this is a hypothetical example, China in fact imports biscuits from Indonesia; Indonesia is also a big importer of flour from Turkey, refined sugar from Thailand, butter from New Zealand, and chocolates from Belgium.

Trade Agreement (of which Indonesia is a member), the Chinese customs will allow it to enter China duty free; however, if it is determined to be made outside Indonesia on account of some of the imported ingredients then the normal MFN tariff needs to be paid, which is 15 per cent for biscuits in China.

In the example given above how will the 'origin' of the biscuit be determined? Resolving the issue of 'origin' for primary goods is uncomplicated. Primary goods are products that are extracted from the land or sea e.g. products of mining, agriculture, forestry and fisheries. As they are "wholly obtained" in the territory of the exporting country (including its territorial waters), it is clear that they 'originate' in that country. By extension goods that are made entirely from primary inputs originating in a country can themselves be considered as 'originating goods' e.g. processed food products.

However, as a result of the globalisation of production processes, many manufactured commodities today, like the biscuit in above example, incorporate inputs produced in a wide variety of countries. In such cases 'originating' status is accorded to that country where the product underwent "substantial transformation" i.e. in the country where a process or input has imparted to the product its essential characteristic. The Kyoto Convention of 1973 laid down the general principles for "substantial transformation" given below:

1. Value added rule (VA):

This rule requires that a minimum percentage of value should be added to the product in the exporting country for the claim of originating from there. It can also be calculated as a maximum allowed percentage of value added by materials of foreign origin. Under the ASEAN-China Free Trade Agreement, the RoO is simply a VA of 40 per cent domestic content. Thus if value of eggs (domestic input) in Indonesia makes up 40 per cent of the value of biscuits made from it, the biscuits will get a "Made in Indonesia" certificate which will allow the Indonesian exporter to sell the products duty-free into the Chinese market.

2. Change in tariff classification rule (CTC):

If a final product manufactured in a country is classified under a different head of the customs tariff classification system than the imported intermediate inputs used in its making, then the product may be claimed to be 'originating' in the country. The Harmonised tariff classification system uses 6 numerical digits to describe a particular product e.g. biscuits have HS code 190590. If RoO requires a change in tariff heading i.e. a change in the 4-digit level it is known as Change in Tariff Heading rule (CTH). It implies, imported inputs must have a different 4 digit classification than the final product. If RoO requires a change in the subheading level i.e. a change in the 6-digit level, then it is known as Change in Tariff Sub-Heading rule (CTSH). Change in tariff heading is more difficult than at the sub-heading level.

In the US-Australia Free Trade Agreement to get tariff preferences biscuits need to satisfy the CTH rule. Biscuits fall under HS heading 1905 (bakery products). As inputs used in preparing biscuits, like flour (1101), sugar (1701), butter (0405), eggs (0407), chocolates (1806) are in other HS headings even if all these inputs are imported the final biscuit will get tariff preferences under the FTA.

3. Technical requirement rule (TECH) and Product Specific Rules of Origin (PSRO):

This rule sets out certain production activities that may (positive test) or may not (negative test) confer 'originating' status to a product. For example the RoO for all bread, biscuit and pastry products in the European Union states, "Any imported inputs allowed except those under Chapter 11". HS chapter 11 includes flour. Thus if a country, which has a PTA with EU, exports biscuits to EU using all domestic ingredients except flour, which it imports, then its biscuits will have to pay tariffs while entering EU. Under the India-Japan CEPA the RoO for bakery products is, "Manufacture in which all the materials used are wholly obtained". It is thus more restrictive than the EU rules. In most FTAs RoO for individual product groups are drawn separately using VA, CTC and / or TECH; these are called Product Specific Rules of Origin.

There are other supplementary rules (like cumulation, absorption, de-minimis) to these three main rules, which try to relax the stringency of the three rules. Details on such rules can be found in Hoekman (1993) and Brenton (2003).

With the various permutations and combinations of these basic rules many a times it is found that a good that satisfies origin for one FTA, may not do so in another FTA as the RoO differ between the two agreements. In a primary survey of Indian exporters Jha (2011) found complaints on the differing levels of CTC in the different agreements (somewhere it is CTH, somewhere CTSH). One exporter asked how can the same product be originating in India, under rules of one agreement, and become non-originating under those of another agreement? Another

exporter rued that getting certificate of origin (document from government agency that states that the product has indeed satisfied RoO under a FTA) is a cumbersome process and the exporter felt that FTAs give benefit for importer (tariff preferences) and paperwork for exporter (to prove origin). Consequently utilisation of FTAs is quite low in some FTAs e.g. only 17%-25% of the firms in South East Asian countries use the plethora of FTAs there (Kawai and Wignaraja 2010). The study points to the restrictive role of RoO, which they say deters the use of FTAs.

Policy implications

RoO are necessary to enforce tariff preference schemes under an FTA, making sure that only 'originating' products get tariff preferences. The problem lies in restrictive designs, cumbersome implementation and verification, all of which leads to lower utilisation of the preferential schemes. There are some steps taken towards harmonisation of non-preferential RoO under the WTO through the Harmonization Work Programme. However, this harmonisation process leaves out RoO of FTAs. Hayakawa and Laksanapanyakul (2017) show empirically that harmonisation of preferential RoO in South East Asia will increase in firms' utlilisation of multiple FTAs.

For policymakers the challenge is to design a RoO which will not be restrictive yet will be strict enough to prevent *trade deflection* and at the same time it will be easy to understand for traders. Joint verification and/or certification mechanism and timely bilateral discussions are of paramount importance for effective implementation of the rules. It is also imperative for policy makers in a particular country to revisit all the agreements that they have signed and see if a uniform RoO can be adopted for the various FTAs, thereby making it easier for traders to comply with such rules and use the FTAs.

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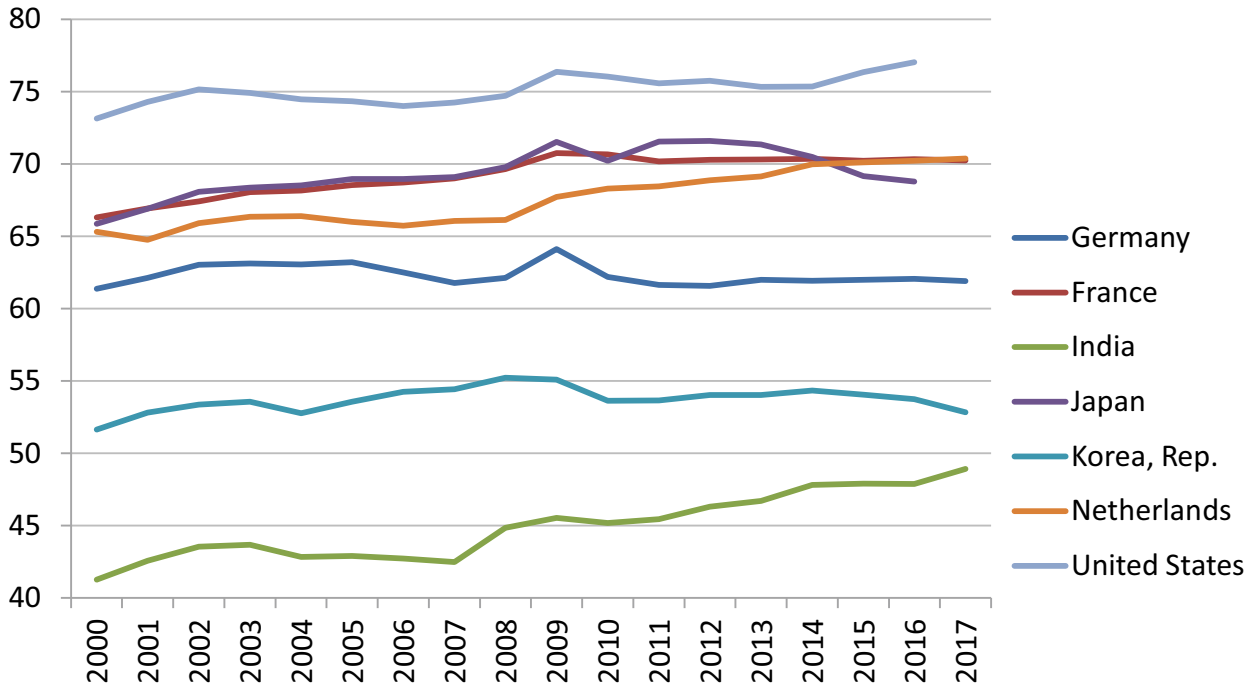
Free Trade Agreements and Trade in Services

Introduction

Trade in services has acquired a position of prominence in the trade policy agenda. The dynamism with which services as a component of trade has evolved has been met by a plurality of explanations. These could be brought under 2 broad umbrellas; a domestic footprint and an external footprint.

The domestic footprint argument places its focus on the participation of services in the GDP of countries. According to the World Bank's data on services value added (% of GDP) in 2017, this figure stood at 45.5% for LDCs (up from 44.1 % in 2016) and 54.3 % for middle income countries (marginal increase from 54% in 2016) [1]. By the same accounts, the services sector employed 48.9% of the work force in middle income countries and 39.3 % in lower middle income countries. Additionally, services have a productivity enhancing effect on the economy owing to the role of intermediate services in manufacturing and agricultural value chains. Data presented in the figure below shows that manufacturing output tends to accrue to countries with efficient service infrastructure.

Figure 44: The world's leading sources of manufacturing export output (with the exception of China) tend to have a higher services value added component in their GDP.

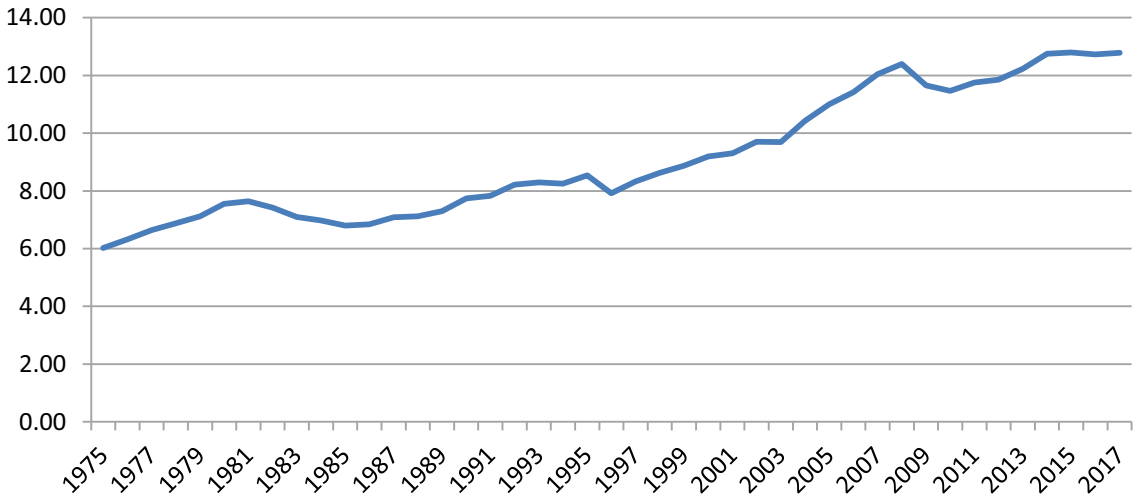


Source: World Bank

[1] World Bank Development Indicators : http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators

The external footprint argument posits that services have had an increasing role to play in international trade and investment. A rising trend for trade in services as a percentage of global GDP is an indicator of this observation.

Figure 45: Trade in Services (% of world GDP)



Source: World Bank

In 2017 world commercial service exports were valued at 5.2 trillion US$, up from 4 trillion US$ in 2008 [2]. Mode 3 service supply (established presence abroad) is also a vital channel for FDI inflow. For instance, in 2014, supply of service by US companies operating in China grew by 30 percent while supply of services by Chinese companies based in the US grew by22 percent [3]. According to the UNCTAD, business services, finance and ICT attracted the 2nd, 4th and 7th largest flows of cross border M&As (Mergers and Acquisitions) in value terms in 2017 [4].

Given its vast footprint over the domestic and international economic realms, trade in services is undoubtedly a crucial area of regulation. Liberalizing trade in services and regulating trade restrictiveness is therefore a vital step in an effort to maximize the productivity gains from efficient and competitive service infrastructure.

In 2017, India was the world's 8th largest exporter and 10th largest importer of commercial services [5]. In 2018, the services sector accounted for 72.5 percent of GVA and the sector was projected to grow at 8.3 percent in 2017-18. Further, the sector attracted 65.8 percent of FDI equity inflows in 2017 – 18 (April – October) [6]. As an emerging market with a competitive edge in the exports of services, the role of trade policy in enhancing competitiveness and accessing markets is critical in determining the productivity enhancing effect that international trade and investment could have on the service sector of India. Trade policy and trade agreements would also be vital in enabling Indian service exports in navigating an international environment riddled with uncertainty and protectionist agendas.

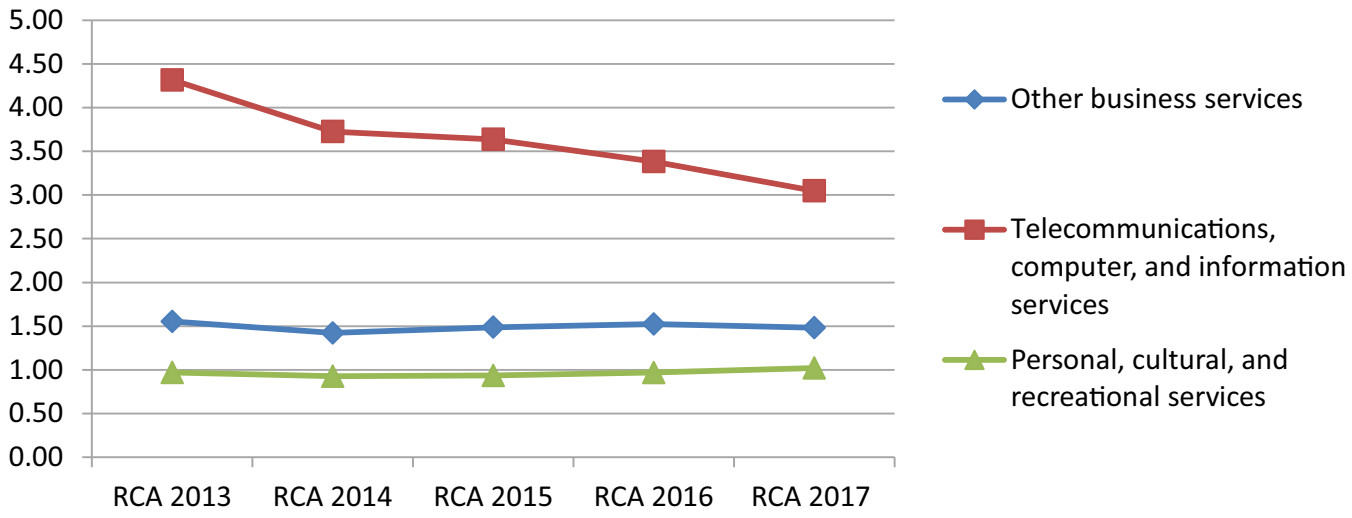
[2] World Bank Data : https://data.worldbank.org/indicator/TX.VAL.SERV.CD.WT?view=chart
[3] Word Trade Statistics 2018, WTO
[4] World Investment Report 2018, UNCTAD
[5] World Trade Statistics 2018, WTO
[6] India Economic Survey 2018

This section throws light on India's service sector and the role of trade agreements in enhancing the competitiveness of its exports. Thus, the focus specifically is on the external footprint of India's service sector. Owing to the nature of data available, this section does not use the same analytical tools that were used in assessing trade in goods in the preceding section [7]. Therefore, this section takes an alternative approach to analyzing the role of trade agreements in India's service export competitiveness. The section begins by identifying Revealed Comparative Advantage (RCA) within the service sector followed by a brief overview of India's evolving services export basket. Following which, the section discusses the architecture of India's trade agreements in services and compares this with agreements that competitors have signed. Finally, the section concludes with a subsection on regulatory benchmarking in services with a view to inform the formulation of trade policy.

Mapping India's Competitiveness in Services

Export competitiveness is indeed a multi-dimensional concept; there are a number of variables that could affect the outcome. Hence, measuring and interpreting export competitiveness is riddled with challenges. As the section on trade in goods notes, REER is one dimension of competitiveness (relative price competitiveness). Yet another dimension, that this section shall assess is RCA or Revealed Comparative Advantage (it is assumed that the indicator reflects differences in price/non price determinants of competitiveness across countries). Thus, RCA can be used to analyze 'relative trade performance' in a given sector, product or service [8]. According to the equation, a country's comparative advantage rests in domains where the RCA is greater than 1.

Figure 46: RCA for Services with RCA > 1



Source: calculations based on ITC data

The figure above shows that India has a comparative advantage in 'other business services', 'telecommunications, computer and information services' and 'personal, cultural and recreational services'. The latter is the newest entrant in the RCA>1 category.

[7] Data on trade in services at a bilateral level, by service type, is often unavailable in the public domain

[8] Annual Report 2017 – 2018, Reserve Bank of India. pp 73. RCA is calculated using the following equation: **RCA= (Xij/Xwj)/ (Xi/Xw)** where Xij : India's export of service j , Xwj : the world's export of service j, Xi: India's total service exports, Xw : total world service exports

Advantage India: The Rise of Cultural Service Exports

In 2017, the RCA (Revealed Comparative Advantage) for 'personal, cultural and recreational services' crossed the >1 threshold. This means that India is now at an advantageous position for exporting these services.

What are personal, cultural or recreational services?

Personal, cultural and recreational services are sub-divided into 2 categories

Therefore, in the Indian example, these can include services and fees associated with the production of films, the sale of distribution rights for bollywood or regional films, services and fees associated with sporting events such as the 'Indian Premier League', the sale of tickets to non-residents for museums, heritage sites and wildlife parks, the fees paid to Indian suppliers of educational services abroad etc.

However, cultural service exports formulate a minor proportion of India's service exports. In 2013, their exports accounted for 0.8% of India's total service exports and in 2017 this figure remained unchanged (ITC data).

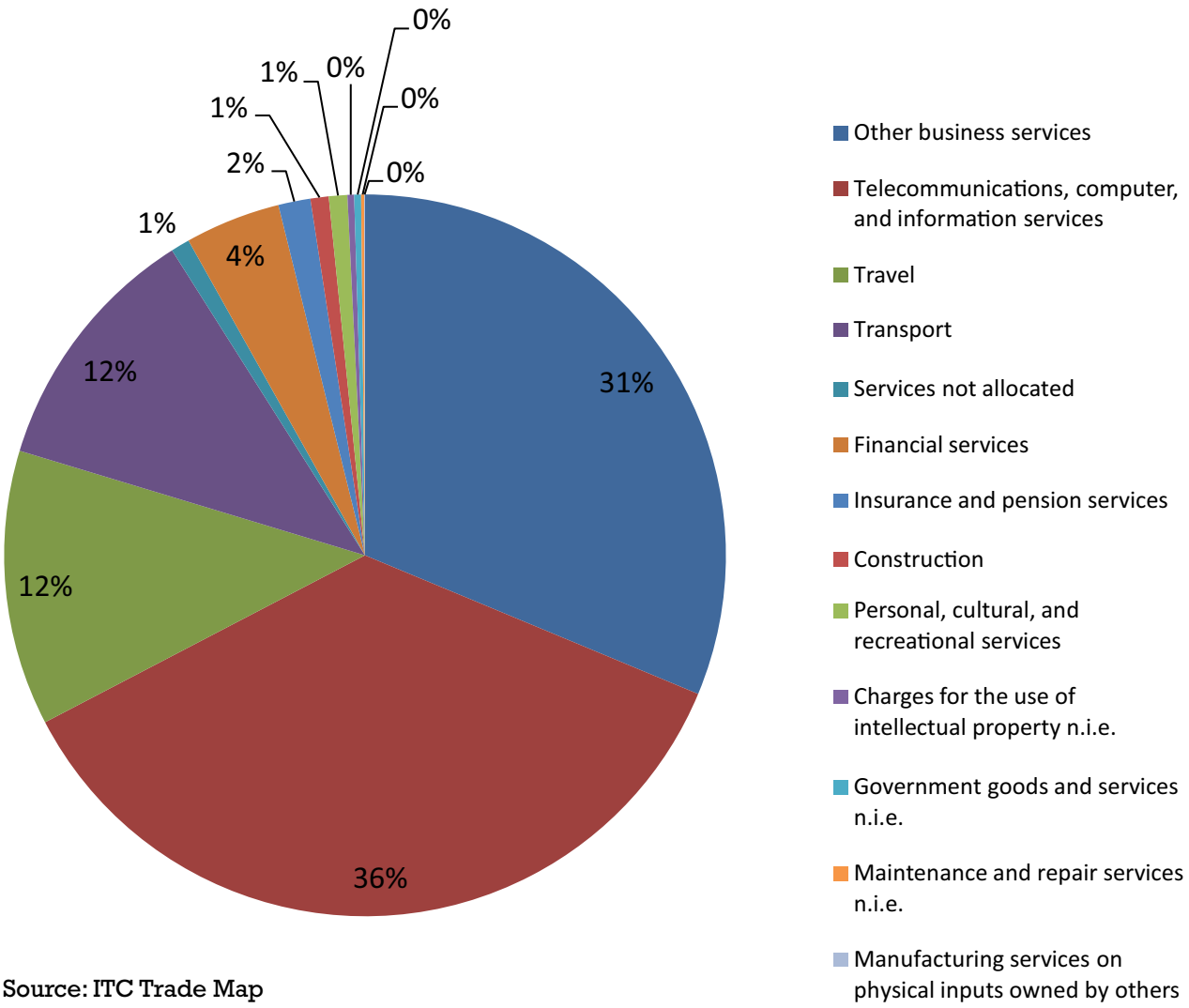
International Trends

The low share of India's cultural service exports in India's total service trade is not surprising. A report published by UNESCO (titled: International flows of cultural goods and services 2004-2013) found that from 2004 – 2013, more than 90 percent of cultural service exports came from and were headed for high income countries. Middle income countries accounted for approximately 5 percent of such exports. Thus, cultural service trade while on the rise globally (grew by a factor of 10 annually from 2002 – 2013), is heavily concentrated.

India's Services Export Basket[9]

The figure below shows changes in India's services export basket from 2013 – 2017. Data suggests that there have been minimal changes to the composition of the basket. The export basket seems to be dominated by business services and IT exports to a large extent and travel and transport to a lesser extent. Excluding the low personal and recreational service exports, India's service exports seem to be in line with where the revealed comparative advantage rests. However, the new addition in the RCA list suggests an opportunity for cultural service exports to form a larger part of the export basket. The IT and business services collectively cast a footprint large enough for trade policy to pay heed to. Hence, the following sub-section discusses the case of India's ICT exports and the role of trade policy in enhancing its competitiveness. Thus, the sub-section aims to ascertain the channels through which trade agreements can lead to gains for the ICT industry.

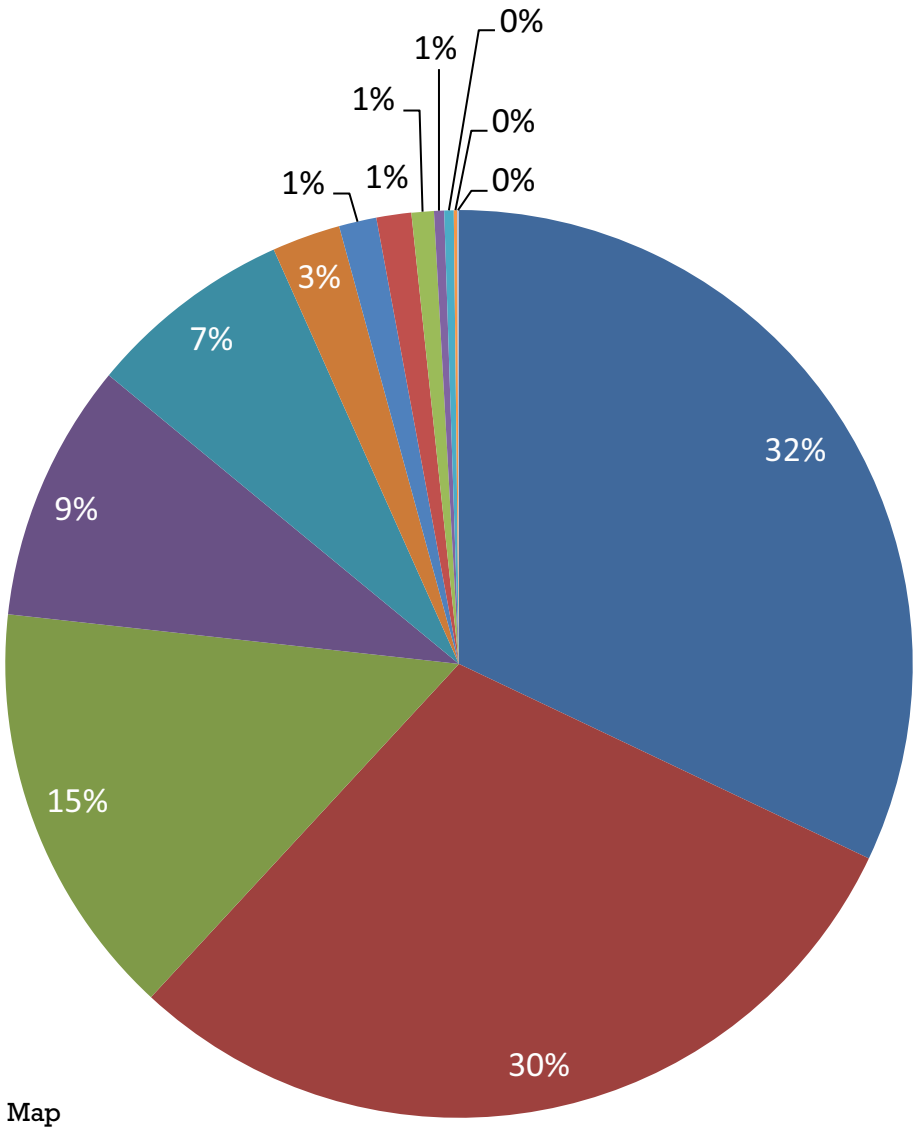
Figure 47: India: Services Export Basket 2013



Source: ITC Trade Map

[9] For both charts, data labels showing 0% share indicate a value X where 0<X<1, source: ITC Trade Map

Figure 48 : India's Services Export Basket 2017



Source: ITC Trade Map

Advantage India: ICT Export Competitiveness.

In 2017, around 30 percent of India's export in services were telecommunications, computer and information services. ICT exports were valued at approximately 97 billion US$ if sale by foreign affiliates is excluded. In the RCA analysis above, RCA for ICT was estimated at 4.3 in 2013 and 3.05 in 2017, well above the threshold of 1. Thus, India has a comparative advantage in ICT exports.

What are ICT exports?

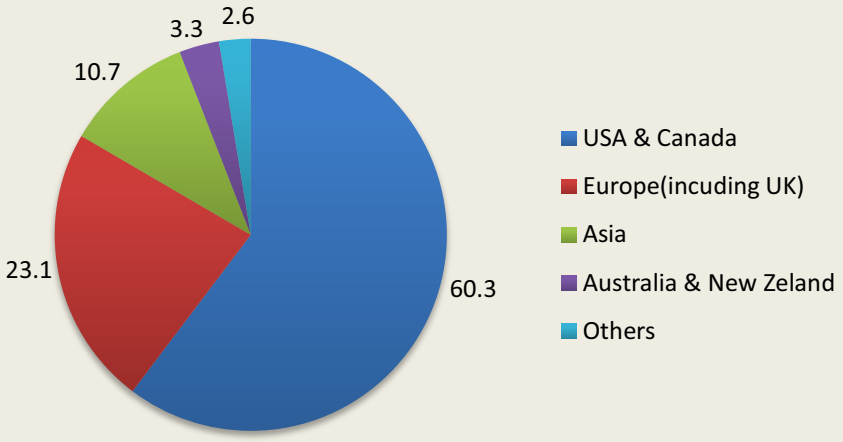
ICT exports can further be categorized into 2 sub-groups;

Computer Services	IT Enabled Services
IT Services, Software Product Development **2017 contribution to services exports: 69.2%**	BPO Services (such as customer interaction, document management and content development), Engineering Services (such as embedded solutions, product design engineering, enterprise asset management) **2017 contribution to services exports: 30.8%**

Where are these exports headed?

Top destinations for ICT

Figure 49: Share 2017 (%)



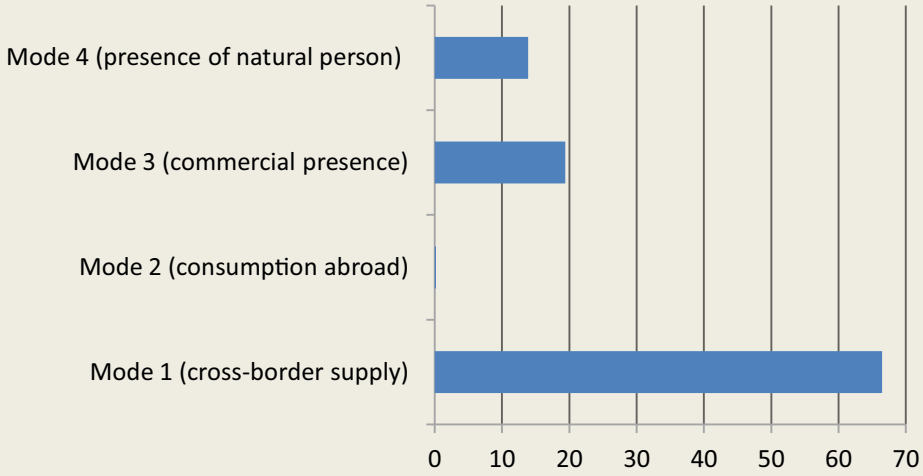
USA, Canada and Europe are the major destinations for ICT exports. This reflects in the invoice shares of currencies. 73.9% of all invoices in 2017 for ICT exports were composed of the US Dollar, 9.4% were of Pound sterling and 7.6% were of Euro.

[10] Data for this section has been sourced from: December 2017. Survey on Computer Software & Information Technology Enabled Exports: 2016 – 2017, Reserve Bank of India. The survey encapsulates the data from 1362 companies that accounted for 81.2 percent of total ICT exports

What modes are ICT exports using?

The figure below shows mode-wise distribution of ICT exports

Figure 50: Share in Total (%)



Cross-border supply represents the highest used mode of supply for ICT exports, followed by supply through commercial presence. Further, 65% of all software sales for 2017 in the US market by Indian ICT companies were done by foreign affiliates of the Indian company. In the United Kingdom and Canada this figure was relatively low at 6.7% and 3.6% respectively. If business by foreign affiliates is added, total exports of software services by India amounts to US$ 120.4 billion for 2017.

Thus, Mode 1 and Mode 3 supply are clearly areas of interest for Indian exporters in the ICT industry. Thus, trade deals with other countries could yield gains for such companies if market access and national treatment conditions are optimized keeping these two modes of supply in mind.

*Sample image

Table: 17 India's Agreements in Services [11]

AGREEMENT	COVERAGE AND KEY FEATURES
India – Malaysia CECA	▪ The services component of the agreement covers 11 sectors and 72 sub-sectors. These include business services, communication services, recreational cultural and sporting services, environmental services, travel and tourism among others ▪ Both parties have agreed to not subject financial services to any additional commitments ▪ The agreement has a separate chapter on Mode 4 supply (movement of natural persons) ▪ Categories of 'natural person' covered under Mode 4 agreements in the deal include Contractual Service Suppliers (CSS) and Independent Professionals (IP) both of whom have been 'delinked' from commercial presence requirement
India – Singapore CECA	▪ All 'juridical persons' registered in India or Singapore shall be covered by the CECA with no attached conditions on ownership and/or control. Exceptions include education, audiovisual, telecommunication and financial service sectors ▪ For financial services, ownership and/or services was required for the first four years, subject to review. India has also offered a 28% foreign equity cap for insurance (life and non-life) and a FDI cap of 74% in banking subject to a 'one mode of presence' conditionality ▪ Chapter 9 of the CECA includes commitments related to the movement of natural persons. Singapore's commitments under the CECA include short term temporary entry for business visitors and short term service suppliers. Long term temporary entry was granted for a list of 127 professionals including architects, zoologists and botanists under 2 categories; intra-corporate transferees (8 year cap) and professionals (12 months cap)
India – Japan CEPA	▪ There are 12 sectors and more than 100 sub-sectors that are included under the agreement. Sectoral commitments include business services, recreational services, travel and transport related services, construction, distribution, communication. A list of sectoral commitments is included in Annex 6 of the CEPA. ▪ Exclusions in the coverage of the Chapter on Trade in Services include aircraft repair and maintenance, air transport services (measures affecting traffic regulation and computer reservation services and the marketing and sales of air transport services), cabotage in maritime transport services, government procurement. ▪ Under the agreement, any market access commitments in any of the 4 modes of supply shall be accompanied by permissions pertaining to the related transfers of capital. ▪ The chapter on the movement of natural persons includes business visitors (90 days cap , extendable), intra-corporate transferees, investors, certified professionals of India (legal, accounting and taxation), contractual service suppliers and instructors (related to Indian cuisine, yoga, music and the English language) all of whom are subject to 1 – 3 years, extendable duration of stay. ▪ Japan's commitments include market access across all 4 modes of supply for ICT and ITES suppliers from India.
India – Republic of Korea CEPA	▪ Similar to the CEPA with Japan, the India-ROK CEPA covers 12 sectors and 100 sub-sectors. Sectoral commitments include business services, communication, distribution and recreational services among others. ▪ Republic of Korea has offered market access in Mode 1 and Mode 2 with the exception of local presence requirements in some sectors such as architectural services and urban planning ▪ For ICT exports, commitments have been made at the 3 digit level across Modes 1, 2 and 3. ▪ The commitments for the movement of natural persons include business visitors (90 day cap), intra-corporate transferees (2 years, extendable) and professionals (1 year or contract period) ▪ A list of 163 professionals in the agreement defines its scope. These include engineers and consultants across sectors such as construction, power and ICT among others.

[11] Source: Ministry of Commerce

The Role of PTAs in Enhancing Trade in Services

The World Trade Report 2011 discussed the synergy between the multilateral trading system and the plethora of regional and sub-regional trade agreements [12]. It discussed among other topics, the content of Preferential Trade Agreements (PTAs) and the channels through which preference is accorded and realized. The report suggests that while the use of PTAs has accelerated since the turn of the century PTAs have also widened in their scope. Services, as a theme, find their way into PTAs through such widening of agendas. According to the report, as of 2011, over 1/3rd of PTAs in force around the globe covered services (in 1990, only 1/10th of all PTAs covered services).

One way of grasping the benefits that can accrue from PTAs that cover services is to understand the motivations behind them. Motivations to enter into PTAs could serve as indicators of intended outcomes and hence throw light on possible avenues of gains. Two key motivations can be identified;

- The first motivation is the deepening of agreements. Since deeper agreements involve measures and deals on 'beyond the border' issues such as competition policy, environmental regulation and other Non-Tariff Barriers (NTBs), these agreements would tend to take into account the very issues that are at the core of service export competitiveness; market entry and competition space. Pascal Lamy, the former Director General of the WTO described these NTBs as filling the space between competition altering conditions and public policy goals [13] . While the later are consumer welfare focused, the former are producer welfare oriented. The integration of producer welfare in the trade agenda in negotiations could have paved the way for the services sector to enter PTAs since competition space and market entry are forms of service trade restrictiveness.

- The second motivation behind PTAs that is of relevance in the services arena is the fragmentation of globalized production. Services such as legal, tax, accounting, consulting, finance and design serve as inputs for firms in sectors other than services, most notably, in manufacturing and agriculture. Since spatially fragmented production networks benefit from 'trade creation' between partners [14], such 'trade creation' would ideally entail a smooth flow of inputs across geographical boundaries. This argument plays specifically into the need to define, permit and regulate the supply of Mode 3 and Mode 4 supply; 'commercial presence' and 'movement of natural persons' respectively. Most PTAs that India is signatory to have separate chapters dedicated to the 'movement of natural persons'. Thus, enabling Global Value Chains (GVS) can be linked to the efficient flow of service inputs through 'mutually compatible national policies' [15] that regulate the 'movement of natural persons' and 'commercial presence' across borders.

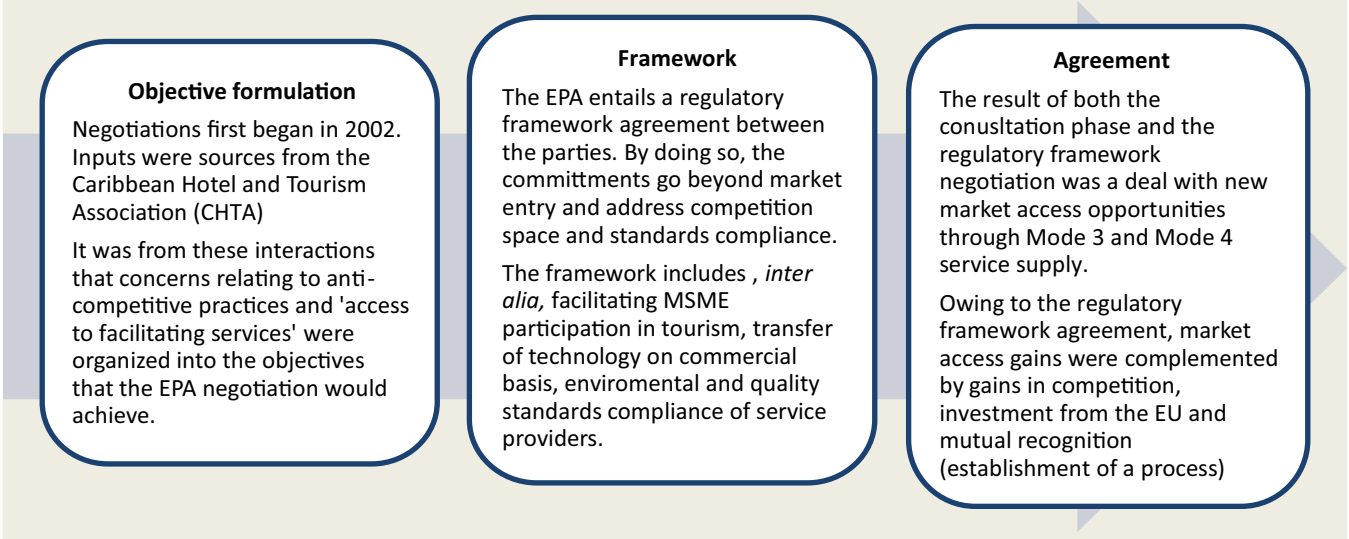
Thus, it can be argued that PTAs can be leveraged to propel the exports of services. In order to consider how these arrangements can deliver results, the box below considers the case of the CARIFORUM – EC Economic Partnership Agreement [16] and its effect on the travel and tourism sector in CARIFORUM [17].

[12] WTO, World Trade Report 2011: The WTO and preferential trade agreements:
From co-existence to coherence
[13] Ibid, pp 3-4.
[14] Ibid, p.9.
[15] Ibid p.10.
[16] CARIFORUM refers to the Forum of the Caribbean Group of African, Caribbean and Pacific (ACP) States , EC refers to European Community
[17] Foreign Trade Division Ministry of Foreign Affairs and Foreign Trade, Government of Barbados. ' Tourism and Travel - Related Services in the CARIFORUM – EC Economic Partnership Agreement' . April 2010.

PTAs in Action: CARIFORUM – EC Economic Partnership Agreement

Signed on 15th October 2008 and implemented on 29th December of the same year, the EPA with the European market included substantial gains for the tourism and travel service providers from CARIFORUM countries for whom the European markets offers a source of footfall and foreign exchange i.e demand and revenue.
Key gains from the EPA for CARIFORUM tourism and travel service providers

- Access for Mode 4 supply of service (movement of natural persons) through Independent Professionals (IP) and Contractual Service Suppliers (CSS)
- A commitment to facilitate the transfer of technology to CARIFORUM businesses on a commercial basis
- The deal allows CARIFORUM travel industry to establish commercial presence within the EU (Mode 3 supply) to attract demand for tourism and provide customer service to their European clientele through hotels, travel and tour operator services, tourism guidance services and spa services (subject to certain limitations as determined by national regulations of EU member states)
- Intra-corporate transfers (Mode 4 supply) covered by the EPA include not only 'key personnel' but also 'graduate trainees' who would be able to enter the EU for a maximum period of 3 years for the supply of services
- The EPA establishes a process within 3 years of the entry into force of the agreement wherein the private sector (through private sector led professional licensing bodies) can negotiate Mutual Recognition Agreements (MRAs) with European counterparts in order to facilitate the cross border supply of services in multiple sub-sectors.
- In the case of Barbados, the deal permits EU investors to establish commercial presence (Mode 3 supply) in the hotel, catering, marina and spa services sub- sectors but withholds such permissions for the tour operators and tourism guidance sub-sectors which have been reserved for investors from Barbados.



3 steps to a lucrative deal

Making sense of the CARIFORUM - EC EPA

Regulatory Benchmarking in Trade Agreements for Services

While it is cumbersome to evaluate the impact of trade agreements on services exports given the nature and availability of data that can guide such an analysis, it is possible and indeed valuable to throw light upon expectations and benchmarks that can enable the formulation of an 'ideal type' trade agreement. Such an 'ideal type' trade agreement would magnify India's competitive strength by converting this edge into greater returns from exports. This section considers key issues surrounding India's services exports and discusses ways in which trade agreements can address them

Empowering the Revealed Comparative Advantage

In a preceding section, this report involved an estimation of India's Revealed Comparative Advantage (RCA) in services. It found that India's RCA rests in business services, ICT exports and most recently, recreational and cultural service exports. In the lieu of this information, it seems necessary for trade deals to empower these exports by providing solutions for market access and competition most suited for these sectors. One such solution is the role of Mode 4 supply (movement of natural persons). Based on data related to labor remittances and movement, it has been suggested that Mode 4 supply is indeed crucial to service sectors such as ICT and business services [18] .

Consider the case of software service exports. In 2017, Mode 3 (commercial presence) and Mode 4 (movement of natural persons) collectively accounted for 33.3 percent of all exports [19]. This indicates that the temporary movement of skilled labor through such categories as intra-corporate transferees and independent professionals among others, are vital to the exports of software services. Thus, temporary movement (Mode 4) can also compliment the Mode 3 supply of services in the sectors where India's RCA exists. However, the efficacy with which Mode 3 and Mode 4 supply can deliver gains for Indian exporters will be dependent on conditions of market entry and the competition arrangements in the host market. In this context, negotiating and effectively addressing the barriers to temporary skilled labor movement becomes both relevant and critical.

Barriers at the Gate: Immigration Policy and Services Exports

The first such barrier to Mode 3 and Mode 4 supply is the immigration policy that the host market enforces on temporary skilled labor movement [20]. The American H-1B visa program is an epitome of immigration policy impacting skilled labor inflow (for USA) and outflow (for countries such as India)[21]. The H-1B visa program is a source of skilled labor inflow. However, its demand exceeds its supply. In 2017 for instance, 199,000 applications were made for 85,000 available visas. Benefiting industries typically include tech (12 – 13 percent of the jobs) and IT where they are used for 'consulting and outsourcing' and companies such as Infosys and Tata Consultancy Services are recipients of the orders. Thus, from the Indian IT industry point of view, supplying these services to the US market is a relatively lucrative avenue of revenue (60.3% of total software exports in 2017 were headed for either US or Canada).

However, the competitiveness of the Indian firms can possibly get eroded by reforms in the H-1B visa program. For instance, US regulatory concerns with respect to the program begin with criticisms of the program alleging that the incoming talent may not necessarily be the brightest but it is the cheapest thus creating a 'displacement' of American labor. Price deferential concerns can erode the cost competitive edge that Indian IT firms could offer (that is currently preserved through avenues such as the third party outsourcing route).

Negotiating conditions of immigration (market entry) that enable Indian firms to preserve their competitiveness would hence form a crucial stream of gains that PTAs can accord to exporters in the ICT and business services sectors.

[18] Chanda, Rupa. Movement of Natural Persons and Trade in Services: Liberalising Temporary Movement of Labour under the GATS. ICRIER, New Delhi. November 1999.
[19] Survey on Computer Software & Information Technology Enabled Exports: 2016 – 2017, Reserve Bank of India. December 2017.
[20] Chanda, Rupa. Movement of Natural Persons and Trade in Services: Liberalising Temporary Movement of Labour under the GATS. ICRIER, New Delhi. November 1999
[21] Torres, Nicole. The H-1B Visa Debate, Explained. Harvard Business Review. May 04, 2017.

Prioritizing Regulatory Cooperation

Considering that Mode 3 and Mode 4 modes of supply are linked to the temporary movement of skilled labor, it is also crucial to point out that this movement involves 'qualified' labor i.e. a certain accreditation of skills. In this regard, the absence of arrangements regarding the recognition of qualifications beyond borders can attenuate the export competitiveness of service sector companies. 'Regulatory heterogeneity' or the presence of multiple regulatory burdens such as qualification and licensing requirements can prove to be sources of costs and uncertainty.

Research suggests that average costs of operation are higher in export markets with an absence of mutual recognition and can hence delay and derail the establishment of economies of scale when the number of export markets increase [22]. Regulatory heterogeneity is born out of the balance between public policy objectives on one hand and deregulated market access on the other; the so called 'producer welfare – consumer welfare trade off'. The need to establish regulatory freedom (the capacity of states to implement regulations as they seem necessary to serve public policy objectives) , is apparent in the legal texts of agreements especially in the chapters concerning the movement of natural persons. Therefore, while these regulations could create hurdles for companies, they are arguably necessary for state capacity and autonomy.

The solution in this context, would exist in the balance between 'permissiveness and constraint'. In order to find this balance, prioritizing the role of Mutual Recognition Agreements can help reduce the costs and uncertainties for service sector exporters. Consider the case of the CARIFORUM-EC Economic Partnership Agreement mentioned in a previous section. The second key step of the negotiation involved a regulatory framework agreement. Such consensus building on the role, objectives and methods of regulatory bodies can form vital additions in trade agreements and could enable the achievement of economies of scale of service exporters especially in business services and personal and recreational services sectors.

Delinking Mode 3 and Mode 4 Service Supply

While both commercial presence and the movement of natural persons are vital to service sectors in which India has a competitive edge, it is essential to establish their independence. Such an exercise can begin with an expansion of the categories of service providers covered under Mode 4 commitments to include those who are supplying a service in their individual capacity such as individual practitioners and specialists. Not only does such an expansion delink Mode 3 and Mode 4 service supply [23], it also allows for the accommodation of India's recent RCA in personal, cultural and recreational service exports. For instance, language instructors, musicians, museum curators, artists and certified yoga instructors are examples where service supply may be driven by individual agency i.e. unaffiliated to a juridical person in either market. India's CECA with Malaysia covers 'independent practitioners' while the India-Japan CEPA covers 'instructors'.

The Digitization Challenge

'Creative destruction' refers to the introduction of innovative practices and technology that alters the economic landscape [24]. In practice, it refers to the evolutionary momentum of economies. Examples include Henry Ford's assembly line in 1913 and the 'containerization' of trade in the late 1950s. In the 21st century, the scope and pace of such 'creative destruction' has grown exponentially and global information flows are at the forefront of this evolution. Over the past decade, cross-border flows of data have expanded global GDP by roughly 10 percent. By 2014, global data flows were 45 times larger than they were in 2005 [25]. Digitization presents a unique opportunity for market participation and productivity growth. Trade policy could have a facilitating effect in this context.

[22] Mattoo, Aaditya. Services Trade and Regulatory Cooperation. E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, 2015. www.e15initiative.org/
[23] Chanda, Rupa. Movement of Natural Persons and Trade in Services: Liberalising Temporary Movement of Labour under the GATS. ICRIER, New Delhi. November 1999. pp.32
[24] The term was coined by Joseph Schumpeter in 1942
[25] McKinsey Global Institute. 'Digital Globalization: The New Era of Global Flows'. March 2016.

As is the case with flows of goods, services and capital, data flows create regulatory concerns. Most recently, such concerns include data protection and privacy. Since the 1970s, data protection has been the subject of national, regional and international regulatory approaches to international commerce in information and communication technology markets. While stringent regulations can increase operational costs and minimize gains, the absence of sufficient data protection can have negative effects on consumer confidence [26].

Cross-border data flows create regulatory concerns such as data protection and privacy. Since the 1970s, data protection has been the subject of national, regional and international regulatory approaches to international commerce in information and communication technology markets. While stringent regulations can increase operational costs and minimize gains, the absence of sufficient data protection can have negative effects on consumer confidence [27]. Thus, finding the balance between consumer welfare and trade facilitation is key in expediting the gains from global data flows.

Data localization, the mandatory storage of citizen's data within national boundaries is a regulatory measure that has acquired a global footprint since 2010. There is arguably a divergence of approaches to the regulation. While China requires 'important data' to be stored locally, Australia has laws with a narrower scope i.e. listing specific cases under which the regulation applies[28]. Thus, data localization norms can differ in their scope and degree of localization. Such divergence creates regulatory risk for companies that have business models based on cross border flows of data.

Regulatory risks are sources of uncertainty and additional costs (compliance costs) for companies. Trade policy could ease the burden by ensuring a degree of compatibility in domestic regulations. If trade agreements involve efforts to generate consensus on the underlying principles and objectives of data protection and privacy, compatibility of regulations can be achieved. Framework agreements on data protection are therefore vital in ensuring a smooth supply of services through Mode 1. This would mean a higher degree of predictability and certainty for companies, thereby minimizing their exposure to regulatory risks.

[26] UNCTAD. ' Data Protection Regulations and International Data Flows: Implications for Trade and Development' . April 2016.
[27] NCTAD. ' Data Protection Regulations and International Data Flows: Implications for Trade and Development' . April 2016.
[28] CSIS. 'A Data Localization Free-for-All?'. March 2018.

How Renewed or Freshly Negotiated Trade Agreements can benefit Indian Exporters

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The proliferation of Regional Trade Agreements (RTAs) has fundamentally altered the world trade landscape and at present there is no WTO member which is not party any RTA. While the old and conventional agreements only covered reduction or elimination of tariffs on goods; the new generation RTAs are much more ambitious and complex. They cover not only goods, but also binding commitments relating to services, investments, separate dispute settlement mechanism, environment, labour, government procurement, completions policy, IPR etc.

For instance the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) covers provisions which are far advanced and go beyond WTO obligations and is designed to alter the global trade rules.

India's desire to enter into the RTAs cannot be seen in isolation from the increasing trend of regionalism all over the world. With not much success on the multilateralism front under the WTO, most countries chose RTAs for faster trade liberalisation and for realising the benefits of complementarity in trade. India, of course, did not want to be left behind in this race for greater regional trade integration and, therefore, started engaging with its trading partners to enter into FTAs and Comprehensive Economic Cooperation Agreements. At present India is signatory of around 20 agreements and is negotiating another 10 agreements with its trading partners.

In the initial phase, India focused on the Agreements with the South Asian partners. In early 2000s, India became an active player in the field of regional integration with its 'Look East Policy' receiving impetus from the signing of the Framework Agreements on Economic Cooperation with Thailand, Singapore and ASEAN.

Subsequently, India entered into the negotiations with South Korea and Japan and then moved its focus towards the European Union.

In all the regional/bilateral trade agreements, the move has been from FTA in goods to FTA in services and investments, as has been the trend over the world. India has been participating in several RTAs which are mostly driven by its geo-political interests. This has ended up with India signing some agreements with the same countries but with different structure and different obligations.

This has created a complex web known as 'noodle bowl', which arises due to different schedules of concessions, time frame for liberalisation and the rules of origin. This is not a desirable condition for Indian exporters. For example, India and Sri Lanka are participating in APTA, BIMSTEC, SAFTA, IORARC and bilateral FTA, which had made life difficult for exporters to explore which item to be exported under which agreement.

Indian negotiators are always in a dilemma about the outcome of negotiations. Most of the negotiating position is influenced by the political decisions and not purely economic considerations. This has led to several agreements where India has committed mush more to its neighbours, especially weaker economies. In these agreements, the items that India can successfully export to the markets are being protected by its FTA partners.

India now should follow the way other major trading nations go for negotiations. The weaker economies should only be given longest time frame to liberalise their sectors but not keep them out permanently. Such an approach has actually jeopardised Indian industry's interests and not provided them the larger economic space to diversify their markets and products. This approach has actually hampered the interests of Indian industry.

The key to successfully negotiating an agreement is to have correct and timely information about market conditions including the behind the border measures that these countries have. Lack of knowledge and information on such issues has always hampered India's negotiating strategy and trading interests. Such information can only flow from the Commercial Missions abroad. Unfortunately,

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these missions have failed to support the negotiators in timely and appropriate manner and most of the information provided come from public domain and not from market or in-house analysis. Unless the existing arrangement is changed, and the Commercial Missions are manned by real trade experts, a successful outcome of negotiations which can benefit Indian exporters cannot be achieved.

Most of India's engagements are with countries which have lower MFN duties than India and the market size is also not as large as India. Thus by definition, these countries have better opportunities to explore Indian market rather than the Indian exporters tapping these markets. The differential duties have also led to several cases of circumvention of rules of origin and mis-utilisation of FTAs.

The cases of imports from Sri Lanka and Nepal are well known in the sectors of Vanaspati, copper, zinc oxide etc. These experiences have led to taking a more informed decision in RTA negotiations. Yet, the present FTAs are negotiated in manner that most of them will be trade distorting rather than trade creating and then welfare reducing in nature (this is due to the fact that India protects its inefficient industries from liberalisation in FTAs, and thus they are not exposed to become competitive).

Given the fact that most of the countries with which India is negotiating goods agreement, have lesser customs duties than India, in its future negotiations, India must concentrate in addressing the issues relating to non-tariff barriers. Till so far, in most of India's RTAs, the provisions relating to reducing or removing non-tariff measures (NTMs) are either not there or are very weak.

The countries with whom India is engaged have costlier NTM compliance cost rather than the duty reduction benefit. Thus even the duties are reduced to zero from their MFN duties of 2-5%, the compliance cost with NTMs are very high. Indian exporters therefore cannot benefit from RTAs unless these are made a pre-condition for negotiations.

The WTO agreement allows for having mutual recognition agreements, conformity assessments, equivalence, etc. and India should use RTAs to address these NTMs in its new agreements.

However, one must also be aware of the fact that under Singapore CECA India had entered into MRA on electrical and processed agriculture items. Despite more than a decade of its implementation, India could not nominate a single agency for MRAs! This is also due to lack of internal assessment and reforms. Thus not only building provisions in RTAs are important, but having internal institutional arrangements in place is equally important.

India is now focussing on comprehensive coverage of sectors and thus is including commitments relating to services and investments as well as other WTO plus issues. In order to seek an effective market access in services, MRAs are very important. One cannot get market access without Indian degrees being recognised by its RTA partners. This is one of the biggest challenges for India.

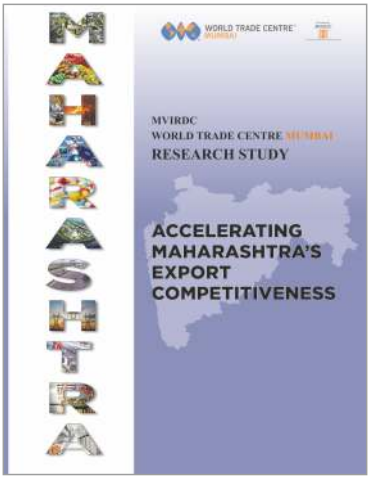
The regulators are not equipped to handle this work, which has led to India lagging behind in tapping these markets. The provisions for MRAs (both for goods – SPS and TBT, and services – recognition of degrees and professionals) must be built in the RTAs of India.

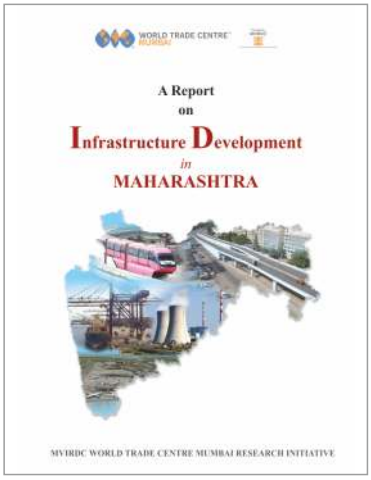
In this regard, it is important that before entering into negotiations, a wish list of sectors is prepared in due consultation with the industry and the regulators. The negotiations should only start when the negotiators fully understand what the benefits of these negotiations are and what is that they must decide.

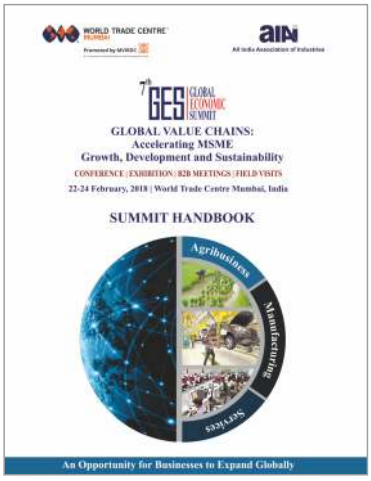
Another issue that is very important in the context is having a permanent institutional mechanism to regularly monitor the export and import under the RTAs. The present system in the Department of Commerce is not equipped to negotiate an agreement and at the same time carry out the post-RTA monitoring.

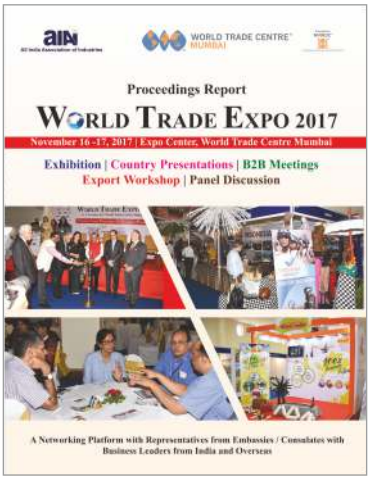
More than a decade ago an FTA cell was created in DoC to monitor developments of FTAs and to advise the business community to benefit from these agreements but it was never put to implementation. With more than 30 RTAs that might come in force in India in few years from now, having a dedicated team to constantly monitor the post-RTAs trade and also regularly consult related stakeholders has reached an alarming level. In order to benefit the exporters such a mechanism is required to be made effective urgently.

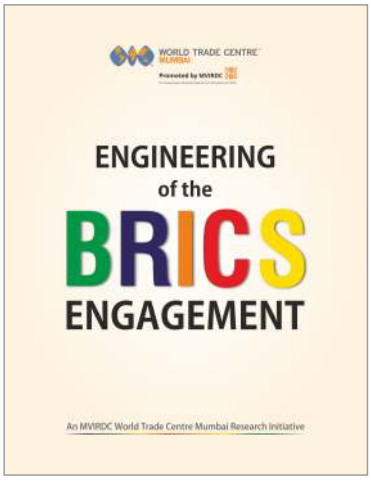
MVIRDC World Trade Centre Mumbai Research Publications











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