Chapter 3

Trade diversion and trade re-orientation: Sectoral analysis

One can further decompose the potential impacts of the EU–India agreement into different sectors. In this chapter we approach this issue by identifying tariff lines for which there are positive trade values from excluded countries and in which the preferential partner could match or surpass the excluded countries' access to the target market. In essence, we now investigate all the scenarios analysed above with the exception of scenario 1 by SITC rev. 3 sectors. The analysis is carried out at 6-digits HS level, and then aggregated to SITC categories[46].

EU preferences

Table II.7 counts the number of tariff lines in which EU tariffs on India are positive and both the excluded country and India export to the EU. These are the tariff lines most likely to be adversely affected by the preferential agreement, and we refer to them below by the short-hand 'affected' headings. These headings suffer possible trade re-orientation, trade diversion or a mix of both (scenarios 2, 3 and 4) according to SITC rev. 3 sectors. By filtering the tariff differential for positive trade values (i.e. only recording tariff differentials that have positive trade values from the proposed sample), we can identify the tariff lines across partners that are likely to suffer from some form of negative effect[47]. The shaded rows mark the share of the given SITC sector in the total number of tariff lines that are affected. The penultimate row of Table II.7 reports the share of 'affected' tariff lines for which the excluded country faces a zero tariff; this allows us to differentiate the pure trade re-orientation effect from the 'trade diversion and/or trade re-orientation' effects. The final row expresses the excluded countries' number of 'affected' tariff lines as a percentage of the total number of tariff lines for which it records positive exports to the EU.

Table II.7 suggests that the potential negative effects of the EU–India agreement are largely concentrated in the manufacturing sectors (SITC sectors 6, 7 and 8). These are more likely to occur geographically; in SAARC countries for Pakistan and Sri Lanka; in BRICS countries for China, Brazil and Russia; and in ACP groupings for the Pacific. Table II.7 also shows, to a lesser degree, some potential negative effects arising in the 'food and live animals' sector for China, Sri Lanka, Russia and Pakistan. Furthermore, the share of tariff lines that are zero, suggests, for SAARC countries with the exception of Pakistan and Sri Lanka, that the dominating effect will be that of trade re-orientation (scenario 2).

Table II.7: Tariff lines that could be affected by extension of preferences to India (2004)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	8	51	1	8	10	83	95	134	113	154	118	106	48	124	28	61	130
%	6.9	6.8	2.0	8.2	2.0	5.5	9.0	5.7	4.7	5.2	5.4	10.1	6.5	8.7	7.3	9.1	9.8
1 Beverages and tobacco		3				4	3	5	6	6	4	6	3	6	1	1	5
%	0.0	0.4	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2	0.6	0.4	0.4	0.3	0.1	0.4
2 Crude materials, except fuels	3	2			6	20	17	34	29	43	29	18	14	23	11	11	22
%	2.6	0.3	0.0	0.0	1.2	1.3	1.6	1.5	1.2	1.5	1.3	1.7	1.9	1.6	2.9	1.6	1.7
3 Fuels and lubricants	1	2				2	1	5	6	5	6	2	1	3	1	2	1
%	0.9	0.3	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.3	0.3	0.1
4 Oils, fats and waxes		2			1	3	4	17	11	17	8	7	5	12	7	4	13
%	0.0	0.3	0.0	0.0	0.2	0.2	0.4	0.7	0.5	0.6	0.4	0.7	0.7	0.8	1.8	0.6	1.0
5 Chemicals	2	18	1	2	10	69	43	321	371	492	278	79	30	80	17	24	85
%	1.7	2.4	2.0	2.0	2.0	4.5	4.1	13.7	15.4	16.8	12.8	7.5	4.1	5.6	4.5	3.6	6.4
6 Manufactured goods classified	24	221	12	6	153	609	304	715	729	967	686	195	167	380	61	169	348
by material %	20.7	29.5	23.5	6.1	30.6	40.1	28.7	30.6	30.3	32.9	31.5	18.6	22.6	26.6	16.0	25.1	26.2

*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.
Calculations at HS 6 digits and aggregated up.

Table II.7: Tariff lines that could be affected by extension of preferences to India (2004) continued

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
7 Machinery and transport goods	34	93	22	31	24	256	191	543	573	609	521	296	255	349	117	210	378
%	29.3	12.4	43.1	31.6	4.8	16.8	18.0	23.2	23.8	20.7	24.0	28.2	34.6	24.4	30.7	31.2	28.4
8 Miscellaneous manufactures	44	356	15	51	296	474	403	563	569	644	525	342	215	452	138	192	347
%	37.9	47.6	29.4	52.0	59.2	31.2	38.0	24.1	23.6	21.9	24.1	32.5	29.1	31.6	36.2	28.5	26.1
9 Commodities not elsewhere classified %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total affected tariff lines	116	748	51	98	500	1520	1061	2337	2407	2937	2175	1051	738	1429	381	674	1329
% share of affected tariff lines that face zero	100	98.7	100	100	98	44.5	45.5	54.9	56	52.2	85	98	98.5	98.2	86.6	98.4	98.1
% share of affected lines in total tariff lines traded	66.3	80.3	67.1	75.4	80.1	78.9	77.4	68.3	64.5	64.4	67.6	68.8	69.2	70.1	73.0	68.9	68.4

*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.

Calculations at HS 6 digits and aggregated up.

Source: COMTRADE, TRAINS, own calculations.

Calculations at HS 6 digits and aggregated up.

The magnitude of the effects on excluded countries of granting India preferential access to the EU is also likely to depend on the height of tariffs. Table II.8 reports the unweighted average tariff faced by India in the headings relevant for each excluded country/SITC section. This measures the size of the 'shock' generated by eliminating the tariff on India. Table II. 9, on the other hand, reports the average tariff remaining on the excluded countries, i.e. the extent of India's preferences in the lines affected (since we assume that India faces a tariff of zero on all lines). These influence the effects on excluded countries relative to a norm of non-discriminatory trade rather than their initial positions[48]. In Table II.8, we see that average tariffs in the EU are low, suggesting that the magnitude of the effects is likely to be small. Table II.7 identified the manufacturing sectors as particularly sensitive, but Table II.8 suggests that the potential negative effects could be very small in these sectors given the low tariffs. Average tariffs on 'food and live animals' tend to be higher than those for manufacturing, suggesting, in conjunction with Table II.7, that the negative effects identified for Sri Lanka, Pakistan and the BRICS countries could be more pronounced in this sector. Identified tariffs seem to be highest in the 'Beverage and Tobacco' sector, but the small number of affected lines points to little trade diversion or trade re-orientation in this sector.

The magnitude of the effects of the EU–India agreement on excluded countries will also depend on the value of excluded countries exports to India that are affected. These are identified in Table II. 10 where we look at the share of affected exports by SITC rev. 3 sector relative to the excluded countries' total exports to the EU. This will give us a sectoral decomposition of trade which can be used in conjunction with the tariff levels in Table II.8 and Table II.9 to assess the size of the likely shocks to excluded country trade and the degree of discrimination they will face when the FTA is implemented. We further contextualise these results by giving in the last row, the share of affected exports to the EU in total exports to the world for excluded countries[49].

Table II.7 suggested that the SAARC countries that could be most affected by Indian preferences to the EU market are Pakistan and Sri Lanka. For Pakistan, we see from Table II.10 that the bulk of exports to the EU is in SITC sectors 6 and 8 ('manufactured goods' and 'miscellaneous manufactures'). These sectors comprise most textile exports and exhibit tariffs of around 3-4 per cent which implies that there is some scope for negative effects arising from trade diversion in these sectors. Furthermore, the EU export market represents over 33 per cent of total Pakistani exports implying that these effects could impact on a significant proportion of the economy, although the tariffs here are typically low. In the case of Sri Lanka, we see that exports are largely concentrated in 'miscellaneous manufactures' which also represent an important share of total Sri Lankan exports, and which could be subject to increased competition in the EU market. Thus, for the larger SAARC countries, Table II.10 suggests that material negative consequences of the EU–Indian FTA are more than just conceivable.

The last row of Table II.10 shows that the BRICS tend to export a lower percentage of their total trade to the EU, suggesting that the negative effects of the EU–India agreement will be of small magnitude relative to their overall economies. They will, however, be concentrated in the manufacturing sectors (SITC sectors 6, 7 and 8). The ACP countries, on the

Table II.8. EU tariffs on India for positive third country exports to the EU (2004)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	6.2	6.4	3.6	8.6	3.6	6.5	7.0	7.9	9.2	7.7	7.8	7.1	6.2	7.4	6.4	8.0	7.9
1 Beverages and tobacco	2.9	4.3	22.7	0.0	2.4	3.9	6.5	5.5	8.6	9.7	8.2	10.1	1.9	7.6	3.3	3.5	8.9
2 Crude materials, except fuels	0.3	0.4		0.0	0.6	0.5	0.5	0.4	0.3	0.4	0.4	0.5	0.2	0.4	0.5	0.5	0.3
3 Fuels and lubricants	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4 Oils, fats and waxes		2.9			2.7	3.7	3.0	2.1	1.8	2.9	2.3	3.1	1.8	2.4	2.4	2.4	3.3
5 Chemicals	1.0	0.4	1.0	1.6	0.2	1.1	0.5	1.1	1.0	1.1	0.8	1.2	1.1	1.0	0.7	2.1	1.0
6 Manufactured goods classified by material	2.3	3.9	2.6	3.7	3.3	3.6	3.0	2.2	1.9	2.5	2.2	2.2	1.6	2.7	1.6	2.3	2.7
7 Machinery and transport goods	0.4	0.6	0.1	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.4	0.3	0.4	0.5	0.3	0.3	0.4
8 Miscellaneous manufactures	3.8	5.3	4.4	5.4	5.3	4.1	4.6	3.2	3.1	3.1	2.8	3.3	2.9	3.7	3.7	3.3	3.1
9 Commodities not elsewhere classified		0.0					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Average	2.3	4.1	3.4	3.7	4.1	3.3	3.4	2.3	2.1	2.3	2.1	2.5	1.9	2.8	2.3	2.7	2.8

*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.
Calculations at HS 6 digits and aggregated up.

Table II. 9. Average Tariffs on excluded countries per 'affected' line (2004)[50]

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	0.00	0.15	0.00	0.00	0.00	6.0	6.93	6.41	7.45	7.00	5.43	0.49	0.22	0.39	1.31	0.27	0.47
1 Beverages and tobacco		0.00				13.98	13.01	7.10	19.58	19.58	0.00	0.00	0.00	0.00	23.40	0.00	0.00
2 Crude materials, except fuels	0.00	2.10			0.70	2.30	1.92	1.92	1.83	2.11	0.88	0.23	0.00	0.18	0.38	0.38	0.19
3 Fuels and lubricants	0.00	0.00				0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4 Oils, fats and waxes		0.00			0.00	4	2.22	1.91	2.82	2.79	0.47	0.00	0.00	0.00	0.00	0.00	0.00
5 Chemicals	0.00	0.00	0.00	0.00	0.00	0.76	0.91	0.71	0.93	0.92	0.04	0.00	0.00	0.00	0.32	0.00	0.00
6 Manufactured goods classified by material	0.00	0.05	0.00	0.00	0.03	3.94	3.09	3.49	2.90	3.34	0.45	0.02	0.03	0.03	0.50	0.03	0.02
7 Machinery and transport goods	0.00	0.00	0.00	0.00	0.00	0.30	0.40	0.40	0.40	0.38	0.13	0.00	0.00	0.00	0.23	0.00	0.00
8 Miscellaneous manufactures	0.00	0.05	0.00	0.00	0.09	4.77	3.98	5.20	3.84	3.84	0.44	0.03	0.06	0.04	0.91	0.02	0.04
9 Commodities not elsewhere classified																	
Average	0.00	0.05	0.00	0.00	0.07	3.55	2.59	3.71	2.46	2.63	0.59	0.07	0.04	0.06	0.66	0.04	0.07

Source: COMTRADE, TRAINS, own calculations.

*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.

Table II. 10. Share of bilateral trade with the EU possibly affected from extension of preferences to India (2004)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals %	2.79	3.81	0.09	94.40	0.09	1.53	2.62	3.35	0.61	0.88	5.29	9.26	5.40	22.42	7.67	6.41	12.35
1 Beverages and tobacco %	0.00	0.00	0.00	0.00	0.00	0.01	0.03	0.01	0.00	0.00	0.02	1.12	0.00	0.03	0.00	0.00	0.01
2 Crude materials, except fuels %	0.10	0.00	0.00	0.00	0.12	0.06	0.45	1.38	0.08	0.24	0.65	12.10	8.91	8.54	0.35	0.08	2.39
3 Fuels and lubricants %	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.34	11.35	0.03	0.31	6.40	0.43	0.22	0.00	0.08	0.08
4 Oils, fats and waxes %	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.13	0.00	0.02	0.03	0.01	0.01	0.08	35.11	0.03	0.38
5 Chemicals %	0.07	0.00	5.82	0.05	0.27	1.86	0.31	2.56	1.25	2.15	1.87	2.12	0.71	0.44	0.09	0.02	0.03
6 Manufactured goods classified by material %	8.99	4.86	1.97	0.07	49.20	44.56	9.05	9.47	3.85	9.00	8.51	0.43	5.49	3.80	0.11	18.51	2.82
7 Machinery and transport goods %	2.77	0.45	3.48	1.07	1.67	0.89	5.68	9.78	0.62	20.11	15.03	2.55	0.35	0.93	0.65	0.59	0.32
8 Miscellaneous manufactures %	1.68	89.44	6.15	1.08	38.49	41.02	62.17	2.46	0.37	28.90	3.80	3.83	0.16	18.40	0.62	0.37	0.28
9 Commodities not elsewhere classified %	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
% share of trade with EU	16.39	98.57	17.51	96.67	89.85	89.92	80.33	29.49	18.15	61.33	35.52	37.82	21.47	54.86	44.60	26.09	18.65
% share of total trade	3.05	57.50	0.27	16.69	16.84	33.43	28.85	7.79	9.67	12.44	13.25	6.68	6.02	19.27	7.72	7.94	5.15

Source: COMTRADE, TRAINS, own calculations.
*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.
Calculations at HS 6 digits and aggregated up.

other hand, export mainly primary goods to the EU (SITC sectors 0, 1 and 2) – see rows 1-3 of Table II.10. The tariffs they face on these goods are quite low, suggesting that the effects of Indian preferences in the EU will mainly arise from trade re-orientation, but this is of little comfort to the exporters who merely see a policy-induced decline in their competitveness. Out of this grouping, ESA is most likely to suffer the consequences of the agreement because the EU is an important export market for agricultural goods. The overall effects will, nonetheless, depend on the degree of similarity/substitutability between ESA exports and Indian exports in this sector.

India preferences

Increased EU preferences in the Indian market will also have an effect on excluded countries. This section looks at the possible negative impacts that could arise from these concessions. Table II.11 mimics Table II.7 in its procedure of identification of 'affected' tariff lines. It counts the number of tariff lines in which Indian tariffs on the EU are positive and both the excluded country and the EU export to India. Thus it again seeks to identify the tariff lines most likely to be adversely affected by the preferential agreement.

Table II.11 suggests that the negative effects could be concentrated in the manufacturing sectors (SITC sectors 6, 7 and 8) which see the highest share of 'affected' tariff lines. In SAARC countries, this could be more pronounced for Nepal, Pakistan and Sri Lanka. The highest effects will hit the BRICS which see a large share of tariff lines 'affected' and, to a lesser extent, the African members of the ACP. Table II.11 also confirms that Indian current preferences are low (as seen in table II.5), as seen by the small share of tariff lines that are zero; this suggests that the predominant effect will be that of trade diversion (scenario 3).

The negative effects of preferences India grants to the EU will also depend on the height of the Indian tariffs levied on the EU. Table II.12 looks at EU average (unweighted) tariffs across SITC sectors for the affected tariff lines. Here we see that Indian tariffs are considerably higher than those of the EU (comparing Table II.8 and Table II.12). For 'beverages and tobacco' we note tariffs nearing the 100 per cent; however, from Table II.11 we see that only a small proportion of tariff lines will be affected in this sector. Tariffs on manufactured goods are in the region of 25 per cent and this, combined with the number of lines that could suffer from increased competition (as shown in Table II.11), suggests that the negative effects on excluded countries of Indian preferences to the EU would be largely concentrated in manufacturing goods (SITC sectors 6, 7 and 8).

As we did above with respect to the tariff that excluded countries will face on the EU after India gains access to that market, Table II.13 reports the unweighted average tariff remaining on the excluded countries faced in the Indian market. It can be seen that the tariff differential with respect to the gained access to the Indian market by the EU, is substantially high.

Table II.11. Tariff lines that could be affected by extension of preferences to EU (2004)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	8	33	2	1	56	32	26	19	4	70	59	3		14	1	4	9
%	21.1	15.4	5.1	11.1	9.6	9.4	3.3	2.2	0.7	2.1	5.8	3.8	0.0	4.2	5.0	10.8	4.2
1 Beverages and tobacco	1	3	3		3	1	7	1	3	14	5	4		4			3
%	2.6	1.4	7.7	0.0	0.5	0.3	0.9	0.1	0.5	0.4	0.5	5.0	0.0	1.2	0.0	0.0	1.4
2 Crude materials, except fuels	11	18	6	6	35	28	49	41	37	155	62	20	22	45	7	10	35
%	28.9	8.4	15.4	66.7	6.0	8.2	6.2	4.8	6.1	4.5	6.1	25.0	48.9	13.5	35.0	27.0	16.5
3 Fuels and lubricants						1	1	2	3	9	6						2
%	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.2	0.5	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.9
4 Oils, fats and waxes	1	1			5		5	6	1	6							
%	2.6	0.5	0.0	0.0	0.9	0.0	0.6	0.7	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 Chemicals		25	3		82	32	106	166	101	696	156	11	5	26	1	3	1
%	0.0	11.7	7.7	0.0	14.0	9.4	13.5	19.3	16.7	20.4	15.4	13.8	11.1	7.8	5.0	8.1	7.1
6 Manufactured goods classified	8	55	20		249	156	286	238	183	1124	308	13	9	101	2	7	71
by material %	21.1	25.7	51.3	0.0	42.6	45.6	36.3	27.6	30.2	33.0	30.5	16.3	20.0	30.2	10.0	18.9	33.5
7 Machinery and transport goods	4	23	1	2	43	30	152	286	196	726	249	19	5	95	7	8	48
%	10.5	10.7	2.6	22.2	7.4	8.8	19.3	33.2	32.3	21.3	24.6	23.8	11.1	28.4	35.0	21.6	22.6

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
8 Miscellaneous manufactures	5	56	4		111	62	156	102	77	605	164	10	4	47	2	5	29
%	13.2	26.2	10.3	0.0	19.0	18.1	19.8	11.8	12.7	17.8	16.2	12.5	8.9	14.1	10.0	13.5	13.7
9 Commodities not elsewhere								1	1	2	2			2			
classified %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.1	0.2	0.0	0.0	0.6	0.0	0.0	0.0
Total affected tariff lines	38	214	39	9	584	342	788	862	606	3407	1011	80	45	334	20	37	212
% share of affected tariff lines that face zero	2.6	2.8	0.0	0.0	1.5	1.2	1.4	1.0	1.3	0.9	1.0	0.0	0.0	3.9	0.0	2.7	1.4
% share of affected lines in total tariff lines traded	77.6	89.9	90.7	100.0	90.7	89.5	93.4	97.6	96.8	93.7	95.9	98.8	95.7	89.8	80.0	90.2	94.2

Source: COMTRADE, TRAINS, own calculations.

*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.

Calculations at HS 6 digits and aggregated up.

Table II.12. Indian tariffs on EU for positive third country exports to India (2004)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	34.2	41.1	40.0	30.0	39.3	40.4	44.2	52.5	33.3	38.3	36.3	56.7	30.0	48.8	76.7	45.0	36.4
1 Beverages and tobacco	182.0	30.0	30.0		104.0	30.0	93.4	30.0	80.7	105.1	72.0	144.0		85.5			80.7
2 Crude materials, except fuels	18.8	18.3	12.1	19.2	17.0	19.4	19.4	14.8	13.5	16.1	12.9	15.7	12.8	15.3	16.5	15.0	16.9
3 Fuels and lubricants						15.0	15.0	13.3	15.0	14.4	14.2						12.5
4 Oils, fats and waxes	30.0	73.3			59.3		73.1	53.6	30.0	57.5	45.0						
5 Chemicals		15.2	15.0		17.7	15.0	15.6	16.8	14.9	15.8	17.4	16.4	15.0	17.9	15.0	15.0	18.6
6 Manufactured goods classified by material	15.0	19.9	15.5		18.5	25.4	20.4	15.8	16.2	19.1	16.2	15.4	15.0	18.3	17.5	15.0	16.3
7 Machinery and transport goods	15.0	18.0	15.0	7.5	16.0	10.8	12.8	14.0	13.2	14.3	13.9	12.6	15.0	13.3	12.9	13.3	14.0
8 Miscellaneous manufactures	15.0	24.2	15.0		24.1	16.1	20.1	13.9	12.9	18.0	14.6	15.0	15.0	18.5	15.0	15.0	14.8
9 Commodities not elsewhere classified								15.0	15.0	15.0	15.0			15.0			
Average	26.7	24.4	18.1	17.8	22.6	23.0	20.6	16.3	14.9	18.0	17.1	22.8	14.3	19.3	22.6	19.0	17.7

Source: COMTRADE, TRAINS, own calculations.
*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.
Calculations at HS 6 digits and aggregated up.

Table II.13. Average tariffs on excluded countries per 'affected' line (2004)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	28.8	39.2	30	30	38.9	36.7	40.9	50.3	35	37.29	35.8	56.67		47.1	100	52.5	37.8
1 Beverages and tobacco	182	30	30		104	30	93.4	30	80.7	105.1	72	144		85.5			80.7
2 Crude materials, except fuels	24.5	29.4	22.5	27.5	25	25.5	26.7	24.4	23.5	23.13	20.9	25.25	21.6	23.1	17.9	26	23.9
3 Fuels and lubricants						30	20	27.5	21.7	22.78	21.7						17.5
4 Oils, fats and waxes	30	35			42		54	55.8	30	53.33							
5 Chemicals		28.6	30		31	28.8	29.2	29.7	28.8	29.8	30.9	30	29	28.8	30	25	29.7
6 Manufactured goods classified by materials	29.4	28	29.5		28.6	28.5	28.9	29.6	29	29.04	29.5	29.23	30	28	27.5	28.6	28.2
7 Machinery and transport goods	26.3	30.2	30	22.5	28.1	24.7	25.3	26.4	25.4	26.54	26.2	24.74	28	25.7	24.3	26.3	26.5
8 Miscellaneous manufactures	30	29.6	28.8		29.6	27.8	28.8	26.6	25.1	28.22	28	27	30	28	27.5	27	26.6
9 Commodities not elsewhere classified								30	30	30	30			30			
Average	31.6	30.6	28.5	26.7	30.4	28.6	29.2	28.6	27.2	28.76	28.6	33.76	25.6	28.2	26.8	29.5	28

Source: COMTRADE, TRAINS, own calculations.

*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.

Calculations at HS 6 digits and aggregated up.

Table II.14. Share of bilateral trade with the EU possibly affected from extension of preferences to India (2004) (in percentages)

SITC description	Afghanistan	Bangladesh	Bhutan	Maldives	Nepal	Pakistan*	Sri Lanka	Brazil	Russia	China	South Africa	CARICOM	Central Africa	East and Southern Africa	PACIFIC	SADC	West Africa
0 Food and live animals	16.91	4.07	1.35	3.43	5.90	36.08	2.74	25.15	0.06	0.38	0.64	0.20	0.00	28.36	0.71	76.17	31.69
1 Beverages and tobacco	0.03	0.50	6.45	0.00	3.41	0.01	0.02	0.02	0.00	0.03	0.00	0.66	0.00	0.71	0.00	0.00	0.00
2 Crude materials, except fuels	22.87	3.73	0.85	95.70	1.35	7.70	9.33	6.05	7.70	2.12	5.88	18.35	94.66	29.88	60.72	12.46	28.04
3 Fuels and lubricants	0.00	0.00	0.00	0.00	0.00	1.79	0.01	0.01	10.16	11.97	2.07	0.00	0.00	0.00	0.00	0.00	0.88
4 Oils, fats and waxes	0.02	0.15	0.00	0.00	4.24	0.00	5.28	1.68	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5 Chemicals	0.00	47.89	0.27	0.00	23.94	2.06	2.40	20.18	20.51	16.50	8.92	0.35	1.59	6.85	0.01	0.13	22.55
6 Manufactured goods classified by material	0.09	8.97	67.68	0.00	41.07	16.13	49.89	6.96	54.29	18.29	5.21	14.03	2.84	22.53	0.12	0.20	2.27
7 Machinery and transport goods	0.03	0.95	0.02	0.18	1.62	0.33	15.97	10.19	3.26	38.75	2.75	65.86	0.11	0.80	0.14	1.21	5.54
8 Miscellaneous manufactures	0.02	4.06	3.17	0.00	6.26	1.78	4.44	0.92	1.98	5.56	0.32	0.30	0.02	0.51	0.02	6.18	0.18
9 Commodities not elsewhere classified	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.46	0.00	0.08	73.77	0.00	0.00	0.69	0.00	0.00	0.00
% share of trade with India	39.96	70.33	79.79	99.31	87.78	65.88	90.08	72.62	97.97	93.70	99.57	99.75	99.21	90.33	61.73	96.34	91.15
% share of total trade	9.16	0.41	72.96	0.27	44.00	0.51	5.52	0.55	0.70	0.76	4.15	0.35	0.41	1.60	1.47	0.22	1.40

Source: COMTRADE, TRAINS, own calculations.
*Pakistan benefited from special treatment under the GSP anti-trafficking arrangement in 2004, values reported are 2006 tariffs.
Calculations at HS 6 digits and aggregated up.

The extent of trade diversion and/or trade re-orientation will also depend on the value of exports from excluded countries to India that will suffer from increased competition. Table II.14 investigates the importance of trade for the affected tariff lines that could suffer from these adverse effects. In so doing, we can provide an upper bound trade value of excluded country exports to India that could be negatively affected by Indian preferences to the EU. Table II.14 shows that the countries that could suffer most from increased competition from the EU to the Indian market will be Bhutan and Nepal. This is to be expected given that they are landlocked and thus have a strong dependence on India as an export market. This effect will, however, depend on the similarity of Bhutanese and Nepalese exports to India to those of the EU. If Bhutan and Nepal mainly use India as an export platform to the world, the competition effects will be small. If, however, Nepal and Bhutan are found to export qualitatively the same type of goods to India as does the EU, the competition effects could be very pronounced.

Table II.14 suggests that, for the BRICS, there is a possibility of a large proportion of exports to India that could be affected by adverse effects, with over 90 per cent of exports of Russia, South Africa and China suffering from increased competition from the EU. However, the Indian market represents a very small share of these countries' total exports which suggests that the global effects will be small. In the case of ACP countries, the same conclusions can be extended; a large proportion of their exports to India will potentially suffer increased competition from the EU, but this represents a small share in total exports. In this grouping, the increased competition faced in the Indian market will be concentrated in agricultural goods.

Overall, the analysis suggests strong competition effects on excluded country access to India in particular industries, but reveals that the Indian market does not tend to represent an important share of total exports (except for Bhutan and Nepal). This suggests that the global effects of increased EU-preferences in the Indian market will be of strong magnitude in affected lines, but of small magnitude in global terms. In all these cases, of course, as the Indian economy grows, the damage from the FTA relative to the situation that would prevail without it will grow, and in these terms the FTA could eventually become significant.

Notes

46 While HS-6 data seem fairly disaggregated, it turns out that they imply rather different results for certain statistics than we get from the 8 or 10-digit data used in the previous section. The reason is that aggregating 10-digit tariffs to 6-digits has the effect of increasing the share of trade apparently subject to positive tariffs.

47 This exercise is somewhat different to that carried out in the previous section in so far as we use compositional tariffs at 6-digits rather than all tariffs. In essence, we only identify the tariff lines that have positive trade values at 6-digit levels that might be affected by the EU–India agreement. In the analysis presented in the previous section, we have made the analysis using either 10 or 8 digits for the European Union and Indian imports respectively.

48 Calculations are carried out at 6-digit level.

49 It will be plain that Table II.10 implies some rather different results from Table II.4A. This is a result of the aggregation of the tariff data from 10 to 6 digits, which has the effect of increasing the share of trade apparently subject to positive tariffs. Suppose that three 10-digit headings combine to form one 6-digit code and that they have tariffs on India of 10%, 0% and 0% and exports from the excluded country of €1, €10 and €20 respectively. In the 10-digit exercise, a positive tariff of 10% applies to €1 of trade, while in the 6-digit exercise the average tariff of 3.33% apparently applies to €31 of trade. Thus in Table II.10 we report Afghanistan as having 16.39 per cent of its exports to the EU in the affected class, whereas in Table II.4A we suggested that 99.1 per cent of its exports to the EU faced 'no change' because both it and India faced zero tariffs in the relevant headings. A further complication is that whereas Table II.4A used data from 2003, Table II.10 used 2004. This means that the share of total exports going to the EU used in Table II.10 differs slightly from that reported in Table II.4A.

50 We note high average tariffs on SITC sector 1 (Beverages and Tobacco). These are largely in tobacco products which face high tariffs in the EU.