

**CUTS Dossier on Preferential Trade Agreements  
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## **1. Dhaka to start negotiations with Colombo to sign PTA**

The government will soon start negotiations aiming to sign a preferential trade agreement (PTA) between Bangladesh and Sri Lanka by July, in a bid to increase bilateral trade volume between the friendly nations.

As part of the move, the commerce ministry has already formed a high-powered 'Trade negotiation committee' to take the next course of action in this regard, said officials.

An official of the commerce ministry also said, "We need to sign several PTAs and FTAs before (Bangladesh's) graduation, to reap benefits of the least-developed country category...."

After its graduation, Bangladesh will lose various tariff-related facilities it now enjoys as a least developed country (LDC), he added.

<https://thefinancialexpress.com.bd/economy/dhaka-to-start-negotiations-with-colombo-to-sign-pta-1623645535>

### **1.1 CUTS Comments**

#### **a) Impact on India's exports to Bangladesh**

Both Bangladesh and Sri Lanka are India's neighbour. Bangladesh is India's fifth largest export destination. India enjoys huge trade surplus with Bangladesh. In 2019, India's exports to Bangladesh were valued at US\$ 9.2 billion, while India's imports from Bangladesh were worth US\$ 1.21 billion. In the same year, Sri Lanka's exports to Bangladesh were US\$ 0.16 billion. Only one key export product, light petroleum distillates (HS Code 271019), is found to be common among their export baskets to Bangladesh.

Other key exports of India to Bangladesh are mostly textile and automobile items such as cotton, not carded or combed, cotton yarn not swing thread, cotton yarn greater than 85 percentage single combed, denim cotton, motorcycles, spark ignition engine of 50 250 cc, and vehicles other than railway or tramway rolling stock, etc.

Other key exports of Sri Lanka to Bangladesh are Parts of electric sound and visual signalling apparatus, Knitted Or Crocheted fabrics, Organic surfactant washing, cleaning preparations, Nails staples, Unwrought aluminium, Plastic household, toilet articles not table, kitchen items, Petroleum gases and other gaseous hydrocarbons, Semi chemical fluting paper, uncoated, in rolls sheets, and woven fabrics.

In order to understand the impact on India's exports to Bangladesh, two Indices have been computed: FKI (Finger Kreinin Index) and RECPI (Relative Export Competitive Pressure Index) (see Annexure I).

The FKI analysis measures the degree of similarity between product baskets of two source countries in their exports of goods to a given destination country. Table 1.A shows FKI values for India over a period of past four years (data for the year 2018 is not available) in Bangladesh's market while Sri Lanka as a competitor. As shown in Table 1.A, FKI values are same (0.12) over the years, and is very low. It is suggesting very less similarity between export baskets of India and its competitor Sri Lanka in Bangladesh.

The RECPI analysis compares the degree of competitiveness between India and its competitor country (in this case Sri Lanka) in exporting common products to a particular destination market (Bangladesh). Table 1.B below presents findings of RECPI analysis of India in Bangladesh market with Sri Lanka as a competitor. As shown in Table 1.B, in this particular case, RECPI values of India are very negligible (close to zero).

**Table 1: India's FKI and RECPI with Sri Lanka in Bangladesh's Market**

<b>1.A. India's FKI with Sri Lanka in Bangladesh's Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Sri Lanka</b>	0.12	0.12	0.12	NA	0.12
<b>1.B India's RECPI with Sri Lanka in Bangladesh's Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Sri Lanka</b>	0.000003	0.000004	0.00001	NA	0.00001
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

In order to better understand possible trade diversion affecting India's exports to Bangladesh, a SMART analysis was conducted. A list of affected top five products is presented in Table 2 below. Among them, knitted or crocheted fabrics, cotton yarn, and woven cotton are found to be highly affected products.

**Table 2: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (US\$ thousands)</b>
600622	Knitted or crocheted fabrics	-255.90
520521	Cotton yarn	-166.37
520939	Woven cotton	-115.47
330290	Mixtures of odoriferous substances	-99.79
401150	New Pneumatic Tires of Bicycles	-83.70
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		

## Food for Thought

Sri Lanka is not a strong competitor for India in Bangladesh's market. However, there may be concerns for the textiles and apparel sector. India has huge potential in supplying raw materials to highly competitive Bangladeshi manufacturers of fabrics and apparel products so as to create a strong regional value chain. Duty-free market access of Sri Lanka's raw materials of textile and apparel industry may harm India's exports of same products to Bangladesh.

### b) Impact on India's exports to Sri Lanka

In 2019, India's exports to Sri Lanka were worth US\$ 4.23 billion. Bangladesh's exports to Sri Lanka were just US\$ 0.04 billion. Only one product, medicaments (HS Code 300490) is found to be common among India and Bangladesh's key export items to Sri Lanka.

Other key export products of India are light petroleum distillates, motorcycles, tankers for the transport of goods, light vessel, fire float, floating cranes or docks, refined sugar, rectangular iron or non-alloy steel bars, knitted or crocheted fabrics, portland cement, and spices.

Other key exports of Bangladesh are pile knit, crochet fabric, caustic soda, pillow cases and pillow slips, antibiotics, knitted or crocheted fabrics, lead acid electric accumulators for vehicle, potatoes, and hydrogen peroxide.

FKI values are shown in Table 3. There is very less similarity between the exports of India and Bangladesh in the Sri Lankan market. The RECPI (Table 3.B) values are not high either, even negligible.

**Table 3: India's FKI and RECPI with Bangladesh in Sri Lanka**

<b>3.A. India's FKI with Bangladesh in Sri Lanka's Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Bangladesh</b>	0.07	0.09	0.08	NA	0.08
<b>3.B India's RECPI with Bangladesh in Sri Lanka's Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Bangladesh</b>	0.000002	0.00001	0.000003	NA	0.000005

*Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database*

As before, in order to have a better understanding about possible trade diversion from India to Bangladesh in the Sri Lankan market owing to favourable duties as a result of this FTA, a SMART analysis was carried out. A very less numbers of products were found to be affected. Major five affected products are listed in Table 4 below. Lead acid electric accumulator for vehicle use is the only product for which India's exports could be reduced significantly.

**Table 4: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (US\$ thousands)</b>
850710	Lead acid electric accumulator for vehicle	-255.06
210690	Different food preparations	-40.50
960899	Parts of pens	-17.00
330610	Dentifrices	-15.53
330510	Shampoos	-14.88

*Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool*

### **Food for Thought**

It has been observed from the above analysis that this FTA may not harm much of India's exports to Sri Lanka. An FTA between India and Sri Lanka is operational since more than two decades. This FTA is serving the interests of both the countries well. India is a relatively balanced trading partner of Sri Lanka, with a high level of exports and imports between these two countries.

## 2. Bangladesh and Australia are in discussion to sign a Trade and Investment Framework Agreement (TIFA)

Bangladesh and Australia are in discussion to sign a Trade and Investment Framework Agreement (TIFA) as the two countries want to take the relations to a new height shifting from development assistance to trade and investment.

Foreign Minister Dr AK Abdul Momen and his Australian counterpart Marise Payne had a telephone conversation on Monday and expressed satisfaction over the progress regarding the discussion on TIFA. The two foreign ministers also discussed Rohingya situation, says a report on UNB agency.

<https://thefinancialexpress.com.bd/economy/bangladesh/fm-his-australian-counterpart-discuss-progress-on-tifa-1622563029>

### 2.1 CUTS Comments

#### a) Impact on India's exports to Bangladesh

In 2019, Australia's exports to Bangladesh were valued at US\$ 635.8 million and major products in its export basket include chickpeas, dried, shelled, ferrous waste or scrap, lentils dried, shelled, copper cathodes and sections of cathodes unwrought and cotton, not carded or combed. Only combed cotton (not carded) is found to be common among key export products of both India and Australia to Bangladesh.

Our FKI analysis for this TIFA is shown in Table 5.A. The index values from 2015 to 2019 highlight little homogeneity in the export baskets of India and Australia to Bangladesh. Table 5.B shows the computed values of RECPI over a recent period of five years. Very low RECPI values means that Indian exports may not face major market loss due to this TIFA.

**Table 5: India's FKI and RECPI with Australia in Bangladesh Market**

5.A India's FKI with Australia in Bangladesh Market					
Competitor	2015	2016	2017	2018	2019
Australia	0.08	0.12	0.13	0.12	0.10
5.B India's RECPI with Australia in Bangladesh Market					
Competitor	2015	2016	2017	2018	2019
Australia	0.03	0.16	0.20	0.08	0.03

*Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database*

However, in order to identify specific products for which Indian producers may face market loss after the implementation of this TIFA, a SMART analysis has been carried out. Findings of this analysis are presented in Table 6 below. It is observed that the most affected export products will be infant foods of cereals, flour, starch or milk, fresh grapes and copper cathodes with an expected trade diversion of above US\$ 300,000.

**Table 6: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (US\$ thousands)</b>
190110	Infant foods of cereals, flour, starch or milk, retail	-558.664
80610	Grapes, fresh	-525.116
740311	Copper cathodes and sections of cathodes unwrought	-353.861
80510	Oranges, fresh or dried	-196.522
190190	Malt extract and limited cocoa pastrycooks products	-145.897
40210	Milk powder less than 1.5 percentage fat	-115.809
853521	Automatic circuit breakers for voltage 1 72.5 kV	-80.94
480431	Paper, kraft, less than 150g m2, unbleached, uncoated,	-49.332
40690	Cheese except fresh, grated, processed or blue veined	-46.468
20230	Bovine cuts boneless, frozen	-42.867
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		

**Food for Thought**

Above analysis substantiates the fact that India's overall exports to Bangladesh market will not hamper significantly due to this TIFA. India's exports to Bangladesh are much higher than Australia's exports. However, Australia's processed food and agriculture sectors are highly competitive. Our SMART analysis shows that some processed foods and fruit items will be highly affected. India has a huge market base in Bangladesh for these products. They are in discussion to finalise a Comprehensive Economic Partnership Agreement (CEPA) to preserve and enhance their market access with each other.<sup>1</sup> It may help India to protect from this potential market loss.

**b) Impact on India's exports to Australia**

In 2019, India's exports to Australia were valued at US\$ 3.19 billion. While that of Bangladesh to Australia was US\$ 798 million. India's major exports to Australia include light petroleum distillates, medicaments in dosage, railway passenger and special purpose coaches, worked jewellery set (particularly diamond), petroleum spirit for motor vehicles, semi or wholly milled rice, cotton garments, anti-sprouting products, and kitchen and toilet linen.

<sup>1</sup> [https://www.business-standard.com/article/economy-policy/india-bangladesh-to-sign-economic-pact-over-next-five-years-eiu-121031600354\\_1.html](https://www.business-standard.com/article/economy-policy/india-bangladesh-to-sign-economic-pact-over-next-five-years-eiu-121031600354_1.html)

Bangladesh's major export products to Australia include various types of garments products of knitted and non-knitted cotton such as T shirts, singlets and other vests, men and boys' trousers and shorts, women and girls' trousers and shorts, men and boys' shirts, pullovers, cardigans, etc., babies' garments, and accessories. Among them, only T-shirts, singlets, and other vests of knitted product is in the list of key export products of India to Australia.

FKI values are presented in Table 7.A. They reflect that there is minimal commonality between the exports of India and Bangladesh in Australia's market. This is further corroborated by the RECPI values, which are insignificant.

**Table 7: India's FKI and RECPI with Bangladesh in Australia Market**

<b>7.A India's FKI with the Bangladesh in Australia Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Bangladesh</b>	0.06	0.07	0.07	0.08	0.09
<b>7.B India's RECPI with the Bangladesh in Australia Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Bangladesh</b>	0.01	0.01	0.00	0.01	0.04
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

In order to better understand possible trade diversion, which is likely to be faced by India from Bangladesh in the Australian market, a SMART analysis has been carried out. Highly affected top five products are listed in Table 8 below. It is found that processed food products may be most affected, exports of which is expected to be reduced by US\$ 93,650.

**Table 8: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (US\$ thousands)</b>
190590	Communion wafers, rice paper, bakers wares nes	-93.65
847410	Machines to sort, screen, wash stone, ores and minerals	-84.79
291899	Carboxylic acids	-67.08
711319	Jewellery and parts of precious metal except silver	-64.451
847420	Machines to crush or grind stone, ores and minerals	-62.17
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		



## **Food for Thought**

Australia is a big market for Indian exporters. Both countries have specific advantage in respective markets. There have been several rounds of discussions between India and Australia on signing an FTA. However, these talks were suspended in 2015.<sup>2</sup> In June this year, they have decided to resume trade talks. Both parties have started to exchange their offer lists. It has been noted that Australia is keen on signing FTAs with several key trading partners including India. Indian trade negotiators will have to keep track of all such FTA talks. There might be a need for Indian negotiators to pursue the inclusion of all such products, which are not in Australia's offer list to India but in others.

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<sup>2</sup> <https://www.eastasiaforum.org/2021/03/08/can-an-australia-india-fta-succeed-where-rcep-failed/>

### 3. Bangladesh's FTA with Malaysia back on the table

Bangladesh is Malaysia's 30th largest trading partner and second in overall among South Asian nations. Bangladesh is also Malaysia's 20th largest export destination, signifying the country's growing importance as an economy.

As for the proposed FTA, it has been on the table for 11 years and therefore, it is about time for Bangladesh to revisit the process given its status as one of the fastest growing economies in the world today.

Bangladesh's signing of a free trade agreement (FTA) with Malaysia should not be just for the duty free benefits on export but also for securing massive investments.

<https://www.thedailystar.net/business/news/fta-malaysia-back-the-table-2099609>

#### 3.1 CUTS Comments

##### a) Impact on India's exports to Bangladesh

In 2019, Malaysia's exports to Bangladesh were US\$ 2.33 billion. Key products exported from India to Bangladesh include cotton, mineral fuels, electrical energy and light petroleum distillates. In the context of Malaysia, the major exports to Bangladesh include minerals, fuels, oils, distillation products, machinery, nuclear reactors and pears and precious stones. Light petroleum distillates and cotton are found common among their key export products to Bangladesh.

FKI values (see Table 9.A) over a period of last five years show that there is very little similarity between the export basket of India and that of Malaysia to Bangladesh. RECPI (see Table 9.B) also reflects that India faces little competition from Malaysia in the Bangladesh Market.

**Table 9: India's FKI and RECPI with Malaysia in Bangladesh Market**

<b>9.A. India's FKI with Colombo in Bangladesh Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Malaysia</b>	0.12	0.14	0.17	0.19	0.14
<b>9.B India's RECPI with Colombo in Bangladesh Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Malaysia</b>	0.02	0.04	0.15	0.37	0.47
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

Our SMART analysis indicates that some products from India to Bangladesh will be affected significantly by this FTA. A list of highly affected seven products is presented in Table 10 below. Sanitary pads and tampons is the most affected product followed by unwrought aluminium and sauces and mixed seasoning. Other affected products include polyethylene, iron or steel structures, printing ink, and carbon and graphite furnace electrodes.

**Table 10: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (US\$ thousands)</b>
961900	Sanitary towels (pads) and tampons	-684.136
760110	Aluminium unwrought (not alloyed)	-504.31
210390	Sauces, mixed seasoning	-342.853
390110	Polyethylene	-316.071
730890	Structures and parts of structures of iron or steel	-290.494
321519	Printing ink (other than black)	-288.886
854511	Carbon and graphite furnace electrodes	-245.082
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		

### **Food for Thought**

This FTA would be Bangladesh's first FTA with any Southeast Asian countries. It will help Bangladesh to attract investments from Malaysia. Malaysia's textile and apparel industry is highly developed. Malaysia has become successful to upgrade their position in textile value chains. Bangladesh's textile and apparel industry is also the backbone of its export sector. This FTA could create a strong nexus between these two countries in textile and apparel industry. That may result in a huge loss of market for India's textile and apparel products.

### **b) Impact on India's exports to Malaysia**

In 2019, India's exports to Malaysia were valued at US\$ 6.28 billion. While that of Bangladesh to Malaysia was US\$ 231 million. India's major exports to Malaysia include not-alloyed aluminium unwrought, light petroleum distillates, P xylene, boneless and frozen Bovine cuts, and Coal tar distillation products.

Bangladesh exports to Malaysia include T shirts, singlets and other vests of knitted cotton, and other various kinds of garments of knitted cotton, and fresh or chilled Potatoes.

FKI values (Table 11.A) reflect that there is minimal commonality between the exports of India and Bangladesh in Australia's market. This is further corroborated by the RECPI values. These values are insignificant and indicate that India faces very little competitive pressure from Bangladesh in access to the Malaysian market.

**Table 11: India's FKI and RECPI with Bangladesh in Malaysia Market**

<b>11.A India's FKI with Bangladesh in Malaysia Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Bangladesh</b>	0.08	0.08	0.09	0.13	0.05
<b>11.B India's RECPI with Bangladesh in Malaysia Market</b>					
<b>Competitor</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Bangladesh</b>	0.00	0.00	0.01	0.01	0.00
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

Our SMART analysis was carried out to identify specific Indian products that might face market loss in the Malaysian market by Bangladesh exports. The results are shown in Table 12 below. Gelatin, rice, and seeds are some of the items, exports of which will be marginally reduced.

**Table 12: Trade Diversion likely to be experienced by India**

<b>Product Code</b>	<b>Description</b>	<b>Trade Diversion (US\$ thousands)</b>
350300	Gelatin and derivatives	-12.006
100630	Rice (semi milled or wholly milled)	-9.161
120242	Oil seeds and oleaginous fruits miscellaneous grains seeds	-7.734
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		

### **Food for Thought**

As compared to Bangladesh, India is in a better position in Southeast Asian market and also has an FTA with ASEAN. Also, India has a Comprehensive Economic Cooperation Agreement with Malaysia, which facilitates bilateral trade in goods and services between these two countries.<sup>3</sup> This agreement adds value to the ASEAN-India Trade in Goods Agreement. Therefore, the proposed FTA between Bangladesh and Malaysia may not cause any major harm to Indian exporters.

<sup>3</sup> <https://fta.miti.gov.my/index.php/pages/view/malaysia-india?mid=44#:~:text=The%20Malaysia%2DIndia%20Comprehensive%20Economic,and%20movement%20of%20natural%20persons>

## Annexure I

### FK Index

The Finger-Kreinin (FK) index provides a way of measuring how similar is two sets of numbers. In principle, it can be used to compare the similarity between either the structure of a country's imports or exports with any two partner countries, to indicate how similar is a country's export pattern to its import pattern, whether geographically or by product; or to compare the structure of production in two different countries.

### FKI to a Destination Country

This version of the FK Index compares export patterns of two countries into a given market (for example, UK and Japan's exports to the world or to India). Another way of thinking about this is that it compares how similar are the imports of a given country from two different suppliers. This is useful if we want to consider overall similarity of exports of two countries and therefore, their degree of competitiveness/complementarity either with respect to particular markets or with respect to their trade with the rest of world.

The formula for the FK Index to a destination country is as follows:

$$FK_{i_1 i_2 j} = \sum_k \min \left[ \left( \frac{x_{i_1 j}^k}{X_{i_1 j}} \right), \left( \frac{x_{i_2 j}^k}{X_{i_2 j}} \right) \right]$$

In the FKI by destination,  $i_1$  and  $i_2$  are two source countries and  $j$  is a destination country.  $x^k$  refers to trade flow in product  $k$ ;  $X$  as total trade flow, so  $x_{i_1 j}^k / X_{i_1 j}$  is the share of product  $k$  in country  $i_1$ 's total exports to the destination partner ( $j$ ).  $x_{i_2 j}^k / X_{i_2 j}$  is the share of product  $k$  in the comparator country's ( $i_2$ ) total exports.

### RECPI

The Relative Export Competitive Pressure Index (RECPI) is about exploring average degree of competition country  $i_1$  faces in country  $j$ 's market from country  $i_2$ , by taking into account both the structure and level of competing countries' trade. Country  $i_1$  will be interested in the value of country  $i_2$ 's exports to country  $j$ , and also in the extent to which country  $i_2$ 's exports are in direct competition with country  $i_1$ 's exports.

The Relative Export Competitive Pressure Index (RECPI) is defined for exporter  $i_1$  with respect to competitor  $i_2$  in market  $j$  as:

$$RECPI = \frac{\sum_k s_{i_2 j}^k x_{i_2 j}^k}{\sum_k s_{i_1 j}^k x_{i_1 j}^k}$$

where  $k$  refers to the product,  $i_1$  to the reporting country,  $i_2$  to the competitor country, and the  $s$  and  $x$  data refer to a given export destination, country  $j$ .  $x_{ij}^k$  is the value of country  $i$ 's exports to country  $j$  of good  $k$ , and  $s_i^k$  gives the share of good  $k$  in country  $i$ 's exports to country  $j$ .

The RECPI is a summary measure which aggregates information from across a range of sectors, subsectors or products. Hence, it can be calculated either for all trade, or for particular sectors - in all cases on the basis of more detailed sub-sectoral or product level detail.