

CUTS Dossier on Preferential Trade Agreements and India
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1. Push for EU trade agreement by year's end (EU-Australia FTA)

Trade Minister Don Farrell is pushing to have an Australia-European Union free trade agreement inked by the end of the year.

Senator Farrell, who is in Switzerland for a World Trade Organisation conference, has met with his Singaporean and Korean counterparts as he works to expand trading ties and opportunities in Asia.

A European Union delegation will land in Australia in the coming weeks to continue negotiations.

(<https://www.crikey.com.au/2022/06/15/push-for-eu-trade-agreement-by-years-end/>)

CUTS Comments

a) Impact on India's Exports to Australia

In 2021, India's exports to Australia became almost double of its average level of exports in the previous five years. Its value was US\$ 6.92 billion, while European Union's exports to Australia stood at US\$ 38.43 billion. Motor vehicles, pharmaceutical products, machinery and mechanical appliances are some common key export items of both India and the EU to Australia.

Other key exports of India to Australia include mineral fuels and mineral oils, natural or cultured pearls, precious or semi-precious stones. Similarly, EU's key export items to Australia include vaccines for human medicine, frozen meat of swine, vessels for the transport of goods.

In order to understand the overall impact of this proposed FTA on India's exports to Australia, two indices have been computed. They are: FKI (Finger-Kreinin Index) and RECPI (Relative Export Competitive Pressure Index) (see Annexure I). The FKI measures the degree of similarity between export baskets of two source countries to a specific destination country. The RECPI measures whether a country is facing competitive pressure from another country while exporting common export items to a third country.

Table 1.A shows FKI values for India over a period of five years in the Australian market while the EU is one of its competitors. As shown in Table 1.A, FKI values are very low and they remained more or less same over the years. It indicates very less similarity in items of exports of India and its competitor the EU to the Australian market.

On the other hand, if the EU's level of exports in common items is higher than that of India, the RECPI value will be greater than one. It means in that case India is facing competitive pressure from the EU in exports of selected common items to Australia.

As shown in Table 1.B, India's level of exports to Australia in common items is much higher than that of the EU. Thus, India doesn't face any competitive pressure from the EU in exports of common items to Australia.

Table 1: India's FKI and RECPI with EU in the Australian Market

Table 1.A: India's FKI with the EU in the Australian Market					
Competitor	2017	2018	2019	2020	2021
EU	0.22	0.28	0.28	0.27	0.21
Table 1.B: India's RECPI with the EU in the Australian Market					
Competitor	2017	2018	2019	2020	2021
EU	0.03	0.04	0.04	0.07	0.07

Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database

In order to better understand possible trade diversion, which is likely to be faced by India from the EU in the Australian market as a result of this proposed FTA, a SMART analysis has been carried out. Findings of the analysis show that India may face a significant trade diversion in certain products. As shown in Table 2, India's exports of articles of precious metal to Australia may be largely affected, followed by exports of handbags, and vehicles with spark ignition. Among other products, exports of bakery items, fungicides, leather handbags, some machinery parts, and parts of motor vehicles may be significantly declined.

Table 2: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
711319	Articles of precious Metal	-2478.9
420221	Handbags	-690.11
870322	Vehicles with spark ignition	-599.48
190590	Bread, pastry, etc.	-343.46
380892	Fungicides	-302.2
420231	Leather handbags	-255.54
847490	Parts of machines	-219.58
853620	Automatic circuit breakers	-203.76

Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database

Food for Thought

India's exports of metal, automobiles, food processing, and textiles to Australia may be reduced due to this FTA. Here comes the importance of the Economic Cooperation and Trade Agreement (ECTA) between Australia and India, which was signed on 2nd April 2022 and both countries committed to conclude a Comprehensive Economic Cooperation Agreement (CECA) by the end of 2022.¹ It is stated that about 96 per cent of Indian products will have duty free market access to the Australian on its entry into force.² India needs to see that exports of those products, which are going to be negatively affected as a result of this proposed FTA between Australia and the EU, are included in Australia's tariff concessions under the Australia-India CECA.

b) Impact on India's Exports to the EU

In 2021, India's exports to the EU were five times higher than that of Australia. Its value was US\$ 59 billion, while Australia's exports to the EU were just about US\$ 10.2 billion. Among key export items of both to the EU, mineral fuels and mineral oils, machinery and mechanical appliances, precious and semi-precious stones and pharmaceutical are common.

Other major exports items of India to the EU include mineral fuels and oils, diamonds, mobile and telephones and aluminum products. Australia's key exports to the EU include bituminous coal, gold, copper, zinc and other precious metal ores. As shown in Table 3.A, FKI values are very low, which means that there is a limited number of common products in India's export basket that Australia also exports to the EU. Also, RECPI values suggest that India's level of exports to the EU in those common products is much higher than that of Australia (see Table 3.B).

Table 3: India's FKI and RECPI with Australia in the EU Market

Table 3.A: India's FKI with Australia in the EU Market					
Competitor	2017	2018	2019	2020	2021
Australia	0.11	0.11	0.09	0.09	0.11
Table 3.B: India's RECPI with Australia in the EU Market					
Competitor	2017	2018	2019	2020	2021
Australia	0.026	0.038	0.005	0.004	0.046

Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database

As shown in Table 4, findings of SMART analysis reveal that as a result of this proposed FTA between Australia and the EU, India's exports in a limited number of products in the EU market may marginally decline.

¹ Mukhopadhyay, Abhijit; Saha, Premesha;(12th May, 2022) India–Australia trade ties: Negotiating a Comprehensive Economic Cooperation Agreement; ORF Raisina Debates.

<https://www.orfonline.org/expert-speak/india-australia-trade-ties/> ; accessed on 13th July, 2022.

² Historic trade deal with India; Joint media release with: The Hon. Scott Morrison MP, Prime Minister; <https://www.trademinister.gov.au/minister/dan-tehan/media-release/historic-trade-deal-india> ; Accessed on 13th July, 2022.

Table 4: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
420500	Articles of leather	-126.07
380210	Activated carbon	-99.84
120991	Vegetable seeds	-72.63
640391	Footwears	-54.87
210690	Food preparations	-51.81

Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database

Food for Thought

It is observed that India's exports to the EU will not be majorly affected due to this proposed Australia-EU FTA. Moreover, on 27th June 2022, India and the resumed their negotiations for a comprehensive trade agreement and it is expected to be concluded soon. This initiative will further enhance bilateral trade between the two countries and is expected to mitigate negative impacts of India's exports to the EU market as a result of this proposed Australia-EU FTA and other similar FTAs of the EU.

2. Oman-UK FTA likely soon

A Free Trade Agreement (FTA) between the Sultanate of Oman and Britain is likely to be entered into by both parties and discussions are currently under way for a region-wide FTA.

Such an agreement will be beneficial for both the GCC and the UK as the GCC is the 4th largest trade partner with the UK after the US, Europe and UK.

Experts opined that a post-Brexit Free Trade Agreement between the United Kingdom and the Sultanate of Oman is likely to boost trade between the two countries, as well as speed up the Sultanate of Oman's diversification process.

A wide range of sectors, starting with energy to consumer goods, and food and beverages which are close to families and other areas will be explored under the FTA which is currently in the discussions and negotiation stage.

(<https://www.zawya.com/en/economy/gcc/oman-uk-fa-likely-soon-oey781bw>)

CUTS Comments

a) Impact on India's Exports to Oman

In 2021, India's merchandise exports to Oman were US\$ 2.5 billion, while that of the United Kingdom (UK) to Oman were US\$ 506 million. Only two products, viz. machinery and mechanical appliances and electrical machinery and equipment, are common in their export baskets to Oman.

Other key exports from India to Oman are bituminous minerals, gas pipelines, rice, iron ores and aluminum oxide. Key exports from the UK to Oman are aircrafts, turbojets, motor cars and other motor vehicles.

India's FKI values over a period of last five years in Oman market with the UK as a competitor are listed in Table 5.A. Very low FKI values indicate negligible similarity in export items of India and the UK to Oman. Also, as shown in Table 5.B, very low RECPI values indicate India's level of exports to Oman in limited common items is higher than that of the UK.

Table 5: India's FKI and RECPI with the UK in Oman Market

Table 5.A: India's FKI with the UK in Oman Market					
Competitor	2017	2018	2019	2020	2021
UK	0.09	0.13	0.14	0.12	0.11
Table 5.B: India's RECPI with the UK in Oman Market					
Competitor	2017	2018	2019	2020	2021
UK	0.04	0.05	0.01	0.004	0.003

Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database

Findings of SMART analysis are summarised in Table 6. It is observed that other than Indian whiskies, magnitude of loss in exports of all other products may be very low.

Table 6: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
220830	Whiskies	-723.12
870323	Vehicles with spark ignition	-34.72
848180	Taps, cocks and valves	-32.91
847420	Grinding machines	-23.21
741999	Articles of copper	-22.78
560314	Man-made filaments	-13.17
250700	Kaolin and kaolinic Clays	-11.98
850213	Electric generating sets And rotary converters	-10.99
392690	Articles of Plastics	-10.09

Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database

Food for Thought

India has good economic relations with Oman like all other GCC (Gulf Cooperation Council) countries. India has high level of imports of both crude oil and other non-oil products from this region. India's level of exports to Oman is also very high. According to the Indian Embassy in Muscat, Oman is India's 24th largest source of imports and 34th largest export destination.³

Here, it is important to mention that recently India and the United Arab Emirates, another influential Gulf country, have entered into a Comprehensive Economic Partnership Agreement, which may result in similar agreements with Saudi Arabia and Oman.⁴ Oman's Commerce and Industry minister has expressed the country's desire to sign an FTA with India, which has been reciprocated by India.⁵ Recently, Oman has requested India for a preferential trade agreement on a limited number of products through which they will explore tariff reductions on selected items of respective export interests before going for a comprehensive trade deal.⁶

³ India - Oman Bilateral Economic and Commercial Relations: <https://www.indemb-oman.gov.in/page/trade/#:~:text=Oman%20is%20India's%2034th%20largest,trade%20of%20US%24%209.988%20billion> ; accessed on 12th July, 2022.

⁴ India-UAE CEPA could lead to future deals between GCC & Delhi: <https://economictimes.indiatimes.com/news/international/world-news/india-uae-cepa-may-lead-to-deals-with-gulf-council-states-emirates-alsaleh/articleshow/92789522.cms>; accessed on 12th July, 2022.

⁵ India looks to sign FTA with Oman: <https://www.muscatdaily.com/2021/10/10/india-looks-to-sign-fta-with-oman/> ; accessed on 12th July, 2022

⁶ India, Oman agree to have joint feasibility study on limited trade deal: https://www.business-standard.com/article/economy-policy/india-oman-agree-to-have-joint-feasibility-study-on-limited-trade-deal-122051200020_1.html ; accessed on 12th July, 2022

b) Impact on India's Exports to the UK

In 2021, India's exports to the UK were more than ten times than that of Oman. While Oman's exports to the UK were US\$ 140 million, India's were US\$ 10.4 billion. Pharmaceutical products and articles of iron and steel are common key export items of India and Oman to the UK.

India's other highly traded export items to the UK include medicines, mobiles and telephones, jewelry and diamonds. Oman's other key exports to the UK include aircrafts, medicines, brakes and other parts of tractors, and other motor vehicles. In 2021, these key export items constituted half of Oman's exports to the UK.

As shown in Table 7.A, FKI values indicate limited number of items that both India and Oman simultaneously export to the UK. Also, very low RECPI values indicate that India's level of exports to the UK in common items is much higher than that of Oman.

Table 7: India's FKI and RECPI with Oman in the UK Market

Table 7.A: India's FKI with Oman in the UK Market					
Competitor	2017	2018	2019	2020	2021
Oman	0.11	0.11	0.10	0.15	0.12
Table 7.B: India's RECPI with Oman in the UK Market					
Competitor	2017	2018	2019	2020	2021
Oman	0.01	0.03	0.009	0.016	0.009

Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database

Our SMART analysis shows that India's exports in a limited number of products may be declined as a result of this proposed FTA between Oman and the UK, but the magnitude of loss of exports will be very low.

Table 8: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
392062	Plates and sheets of plastic	-85.67
870830	Brakes and other parts of motor vehicles	-35.61
711319	Articles of precious metals	-4.45
701090	Bottles, flask, jars, etc. of glass	-3.03
210390	Sauces	-1.92
854449	Electric conductors	-1.86
620469	Trousers	-1.06

Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database

Food for Thought

UK is India's eighth largest overseas market.⁷ Given the size and diversity of the Indian economy and those of its exports, Oman is not in a position to compete with India. Moreover, India is negotiating a comprehensive FTA with the UK, which is expected to be completed by the end of this year.⁸ This proposed FTA between India and the UK will safeguard India's export interest in the UK's market.

⁷ India's Top 25 Export Destinations; Indian Trade Portal;<https://www.indiantradeportal.in/vs.jsp?id=0,25,45,858,859>; accessed on 12th July, 2022.

⁸ Hopeful for conclusion of India-UK free trade agreement by Diwali: Piyush Goyal; <https://www.firstpost.com/world/hopeful-for-conclusion-of-india-uk-free-trade-agreement-by-diwali-piyush-goyal-10821221.html> ; accessed on 12th July, 2022

3. Britain launches free trade deal talks with Mexico

Britain on Friday said it was launching talks over a free trade deal with Mexico, looking to add services to its current agreement as well as aiming to increase trade in the financial and digital sectors.

Britain's trade relationship with Mexico is currently worth over 4 billion pounds (\$5 billion), the trade ministry said.

Britain said it aimed to lock-in tariff reductions on 97% of UK goods secured under existing agreements, as well as gain market access for a range of services sectors too.

Britain added that it wanted to help workers move between the two countries more easily, make it easier for UK firms to bid for contracts in Mexico and have a dedicated chapter in the deal on small and medium-sized enterprises.

(<https://www.reuters.com/world/britain-launches-free-trade-deal-talks-with-mexico-2022-05-20/>)

CUTS Comments

a) Impact on India's Exports to Mexico

In 2021, India's exports to Mexico were US\$ 4.2 billion, while that of the UK were US\$ 1.4 billion. Machinery and mechanical appliances, motor vehicles and its parts, iron and steel are common key items that both India and the UK simultaneously export to Mexico. Other key export items of India to Mexico include aluminum products, medicines and motor-cycles. Similarly, other key export items of the UK to Mexico include whiskies, turbojets and parts of aero planes and helicopters.

As shown in Table 9.A, FKI values are in the range of 0.17 to 0.20. It indicates that there is very low homogeneity in export items that both India and UK exports to Mexico. It is also observed from very low RECPI values that India has larger exports in common items than the UK in the Mexican market.

Table 9: India's FKI and RECPI with UK in the Mexican Market

Table 9.A: India's FKI with UK in the Mexican Market					
Competitor	2016	2017	2018	2019	2020
UK	0.17	0.20	0.19	0.18	0.19
Table 9.B: India's RECPI with UK in the Mexican Market					
Competitor	2016	2017	2018	2019	2020
UK	0.071	0.108	0.097	0.064	0.061

Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database

Our SMART analysis shows that India's exports of only four products may be declined due to this proposed Mexico-UK FTA and the magnitude of reduction in exports of all those products will be very low.

Table 10: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
392190	Plates, sheets, films of plastics	-1.01
540751	Woven fabrics	-0.94
230990	Food for animal feed	-0.72
640399	Footwear with outer soles of rubber	-0.57

Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database

Food for Thought

Indian exporters don't have to worry about this proposed Mexico-UK FTA. It is observed that India's overall level of exports to Mexico is much higher than that of the UK and also there is low similarity in their export items.

b) Impact on India's Exports to the UK

In 2021, India's exports to the UK were at US\$ 10.4 billion, whereas that of Mexico stood at US\$ 3.8 billion. Precious and semi-precious stones, electrical machinery and equipment, mechanical appliances are found to be common key export items that both India and Mexico export to the UK. Other major export items of India to the UK include medicines, mobile and other telephones, jewelry, turbojets, etc. Mexico's other major export items include gold, machines for reception, conversion and transmission, motor cars and surgical instruments.

FKI values (see in Table 11.A) indicate very limited number of common products in India and Mexico's export items to the UK. As shown in Table 11.B, it is also observed that India's level of exports in common items is higher than that of Mexico.

Table 11: India's FKI and RECPI with Mexico in the UK Market

Table 11.A: India's FKI with Mexico in the UK Market					
Competitor	2016	2017	2018	2019	2020
Mexico	0.15	0.14	0.12	0.10	0.11

Table 11.B: India's RECPI with Mexico in the UK Market					
Competitor	2016	2017	2018	2019	2020
Mexico	0.06	0.045	0.044	0.024	0.025

Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database

It is found from SMART analysis that India's exports of fruit juices, fresh grapes, and vegetables to the UK may decline by very low magnitude.

Table 12: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US\$ Thousands)
200931	Fruit juices	-8.99
80610	Fresh grapes	-7.099
71080	Vegetables	-4.601

Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database

Food for Thought

At present, India's total exports to the UK is much higher than that of Mexico. Moreover, there is very low similarity in export items of India and Mexico to the UK. As a result of this proposed Mexico-UK FTA, there will be negligible impacts on India's exports to Mexico.

Annexure I

Finger-Kreinin Index

The Finger-Kreinin (FK) index provides a way of measuring how similar are 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 $x^k_{i_1 j}/X_{i_1 j}$ is the share of product k in country i_1 's total exports to the destination partner (j). $x^k_{i_2 j}/X_{i_2 j}$ 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 . $x_{i_2 j}^k$ is the value of country i_2 's exports to country j of good k , and $s_{i_2 j}^k$ gives the share of good k in country i_2 '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.