CUTS Dossier on Preferential Trade Agreements and India

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1. Malaysia, UAE to launch negotiations on comprehensive trade pact

A Comprehensive Economic Partnership Agreement (CEPA) has been agreed to between Malaysia and the United Arab Emirates (UAE). "The Malaysia-UAE CEPA will be a comprehensive and mutually beneficial agreement, covering trade in goods and services, investments, economic cooperation, and other emerging areas of mutual interest to be agreed upon," the Ministry of Investment, Trade and Industry of Malaysia, noted in a statement.

According to Investment, Trade, and Industry Minister, Tengku Datuk Seri Zafrul Abdul Aziz, this partnership will pave the way for a comprehensive and mutually advantageous economic framework that will strengthen strategic alliances, encourage innovation, accelerate economic growth, and generate job opportunities for both countries.

(*https://www.thestar.com.my/business/business-news/2023/05/23/malaysia-uae-to-launch-negotiations-on-comprehensive-trade-pact*)

CUTS Comments

a) Impact on India's Exports to Malaysia

India's exports to Malaysia experienced a massive hike of 21 per cent in 2021, when it reached US$ 6.70bn. In the same year, the value of the UAE's exports to Malaysia was US$ 2.56bn. Among the key export items of India and the UAE to Malaysia, only two products, light oils and motor sprit reparations and precious metal, are found to be common.

Other key export items of India to Malaysia include petroleum gases and gaseous hydrocarbons, boneless and frozen bovine meat, not alloyed aluminium, and chemical xylol. On the other hand, other key export items of the UAE to Malaysia include vaccines, powered aircraft like gold, alloyed and not alloyed aluminium, polypropylene, and polyethylene (having a specific gravity of 0.94 or more).

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

Table 1.A represents the FKI values of India over a period of five years in the Malaysian market with the UAE as one of its competitors. Such FKI values are low and more or less same over time. It indicates a small number of similar products in the export baskets of India and UAE the to the Malaysian market.

On the other hand, if average value of exports of the UAE in those similar products is larger than that of India, the RECPI value will be greater than one. As shown in Table 1.B, India's average value of exports to Malaysia in common items is much larger than that of the UAE. Thus, India does not face any competitive pressure from the UAE in exports of common items to Malaysia.

Table 1.A: India's FKI with the UAE in Malaysia					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
The UAE	0.159	0.101	0.111	0.133	0.131
Table 1.B: India's RECPI with the UAE in Malaysia					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
The UAE	0.025	0.008	0.012	0.029	0.017
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 UAE in the Malaysian market as a result of this CEPA, a SMART analysis has been carried out. As shown in Table 2, some industrial machinery parts, batteries, construction materials, chemical and apparel items are likely to be the negatively affected export items. However, the magnitude of their export loss may not be significant.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US$ Thousands)
843143	Boring or sinking machinery parts	-54.32
850710	Lead-acid storage batteries	-50.94
730511	Galvanized pipe line submerged arc welded iron	-42.1
392020	Polymers propylene Products	-32.41
570310	Carpets of wool or fine animal hair, tufted	-25.84
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

Malaysia is India's 18th largest export destination. Our FKI analysis indicate that there is a small number of similar products between India and UAE's export baskets to Malaysia, and RECPI values confirm that India's average value of exports in those common products is larger than that for UAE.

Also, total export loss of India to Malaysia may not be significantly large and product-specific export loss also may not be large. India has a good footprint in the Malaysian market and the Indian economy has a highly diversified industrial base with comparative advantage in many items, whereas the UAE's economy is less diversified and mostly petroleum-oil based. This CEPA may not significantly result in a loss of India's exports to Malaysia.

b) Impact on India's Exports to the UAE

The UAE is the second-largest export destination of India. Total value of India's exports to the UAE is much larger than that of Malaysia. In 2021, India's value of exports to the UAE was US$ 25.45bn, while that of Malaysia was just US$ 2.55bn. Among key export items of both India and Malaysia to the UAE, light oils and motor spirit reparations, precious metal and telephones for cellular networks are found to be common for both.

Other major export items of India to the UAE include diamonds, light petroleum distillates, light vessels, fire floats, floating cranes and other vessels, etc. Similarly, Malaysia's key exports to the UAE include colour reception apparatus for television, palm oil, rubber apparel and clothing accessories, automatic data processing machines.

FKI values over the past five years (as shown in Table 3.A) indicate that the total value-share of common export items between India and Malaysia is ranging between 27.6 to 44.8 per cent. In 2019, the value share was 44.8 per cent. It lowered to 32.8 per cent in 2021.

However, RECPI values (as shown in Table 3.B) indicate that Malaysia's total value-share of those common export items is much lower than that of India. It means that on an average India's value of exports of such common items is larger than that of Malaysia.

Table 3.A: India's FKI with Malaysia to the UAE

Competitor	2017	2018	2019	2020	2021
Malaysia	0.276	0.437	0.448	0.343	0.328

Table 3.B: India's RECPI with Malaysia to the UAE

Competitor	2017	2018	2019	2020	2021
Malaysia	0.084	0.075	0.070	0.085	0.067

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

As shown in Table 4, our findings from the SMART analysis reveal that India may face large trade diversion in a variety of jewellery, consumer electronics, chemical, medical devices, and agro-based industrial products.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US$ Thousands)
711319	Precious Metal Other Than Silver	-18497.3
841451	Different types of fans	-544.10
151319	Coconut (Copra) Oil And Its Fractions	-458.45
340120	Powders And Liquids soap	-365.42
210690	Soft drink concentrates	-364.03
40590	milk fats and oils	-269.93
390799	Polyesters	-211.78
291570	Palmitic Acid, Stearic Acid	-201.62
401511	Surgical And Medical Gloves	-173.38
151620	Vegetable fats and oils	-137.8

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

Food for Thought

Our findings from FKI indicate that common export items of India and Malaysia have a moderately high value-share in their total exports to the UAE. Contrary to this, RECPI values indicate India's value-share in those common items is relatively larger than that of Malaysia. Hence, India may not face significant competitive pressure from Malaysia.

On the other hand, our findings from the SMART analysis indicate that India's exports of some products such as jewellery, consumer electronics, chemical, medical devices, and agro-based industries may face a large export loss in the UAE. The India-UAE CEPA, which is entered into force on May 1, 2022, may mitigate some negative impacts on India's products to the UAE. At the same time, Indian exporters of those specific products to the UAE should be more alert.

2. Philippines-South Korea FTA signing feasible this year

A free trade agreement (FTA) between the Philippines and South Korea may be signed this year, according to Philippine Trade Secretary Alfredo Pascual. While in Detroit for the Asia Pacific Economic Cooperation Ministers Responsible for Trade meeting, Pascual heard encouraging things about the FTA from his South Korean colleague. In order to sign the agreement, both parties are striving to secure the required authority.

Key topics of attention during the FTA negotiations, which started in June 2019 and ended in October 2021, included trade in products, trade remedies, rules of origin, customs processes, and market access for Korean auto parts and units as well as bananas from the Philippines. The FTA intends to improve bilateral commerce and fortify relations between the two nations' economies.

(*https://www.philstar.com/business/2023/06/12/2273133/philippines-south-korea-fta-signing-feasible-year*)

CUTS Comments

a) Impact on India's Exports to the Philippines

In 2021, India's value of exports to the Philippines was found to have recovered by closing to almost US$ 1.98bn. In the same year, South Korea's export to the Philippines was four times more than that of India, which was approximately US$ 9.65bn. There is no common product found to be in India and South Korea's key export items to the Philippines.

Some key products that are exported from India to the Philippines include medicaments, iron or non-alloy steel semi-finished products, frozen boneless bovine cuts, motorcycles' spark ignition engine of 50-250cc, cereals made out of wheat and meslin, oil seeds and oleaginous foods, new rubber pneumatic tyres for buses and lorries, automobiles spark ignition engine of 1000-1500cc, telephones other than line telephones sets with cordless handsets and agriculture crop paddy.

South Korea's key exports to the Philippines include electronic integrated circuits, petroleum spirit for motor vehicles, light petroleum distillates, electronic integrated circuits and amplifiers, liquid lustres and similar preparations, refined copper wires, vaccine for humans, warships, printed circuits, and transistors except photosensitive.

Table 5.A depicts the FKI values for India over a period of five years in the market of the Philippines with South Korea as its competitor. FKI values for last five years are stagnant, indicating very few common products with negligible importance in the export baskets of India and its competitor, South Korea, in the market of the Philippines.

India's RECPI values over a period of five years in the market of the Philippines, with South Korea as a competitor, are depicted in Table 5.B below. In 2017 and 2018, South Korea's total value-shares in common items were larger than those of India. However, over time India's value-shares in common items improved and they became larger than those of South Korea.

Table 5.A: India's FKI with South Korea in the Philippines					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
South Korea	0.182	0.153	0.122	0.122	0.100
Table 5.B: India's RECPI with South Korea in the Philippines					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
South Korea	1.458	1.452	0.696	0.341	0.287
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

Furthermore, in order to understand diversions in trade that India may face from South Korea in the market of the Philippines due to this FTA, a SMART analysis has been conducted. As shown in Table 6, India can expect a trade diversion in automobile parts and plastic products. However, the magnitude of loss may not be significant.

Table 6: Trade Diversion likely to be experienced by India

Product Code	**Description**	**Trade Diversion (US$ Thousands)**
850710	Lead-acid storage batteries	-285.607
854430	Ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	-42.714
392390	Plastic Articles for Packing of Goods	-40.55
340211	Anionic surface-active agents	-34.057
392062	Plates and sheets of plastic	-24.288
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

Our findings from FKI and RECPI indicate that India may not face any significant competitive pressure from South Korea to access the market of the Philippines. However, South Korea's automobile and electronics commodities are dominating in the existing trade pattern with the Philippines. It is also expected that tariffs on some major South Korean automobile parts will

be removed within five years under this FTA.[1] Hence, India's automobile and electronics sectors may face more competition from South Korea for their access to the market of the Philippines.

b) Impact on India's Exports to South Korea

In 2021, India's value of exports to South Korea was US$ 7.3bn. In the same year, that of the Philippines to South Korea stood at around US$ 3.19bn. Among the top 10 key export items (in terms of their traded value) of India and the Philippines to South Korea, there is no product found to be common.

Key products that are exported from India to South Korea are petroleum spirits for motor vehicles, unwrought aluminum, unwrought lead refined, ferro chromium, iron ore, concentrate, agglomerated, alloyed unwrought aluminum, oil cake and other solid residues, unwrought zinc, sesamum seeds and diamond jewellery worked but not mounted or set.

Some key products of the Philippines to South Korea are electronic integrated circuits, processors and controllers, other types of integrated circuit, edible fruit and nuts, ignition other wiring sets for aircrafts, electronic integrated circuits, memories, storage units, copper cathodes and sections of unwrought cathodes, tobacco cigarettes, parts and accessories of electrical measuring instruments and electric inductors.

As shown in Table 7.A below, the values of FKI indicate that there is a small number of common products of India and the Philippines to South Korea. The RECPI values are low and declining over time. It indicates an increase in India's value-shares of common export products relative to that of the Philippines in South Korea's market, and they remained always greater than that of the Philippines over the past five years.

Table 7.A: India's FKI with the Philippines in South Korea					
Competitor	2017	2018	2019	2020	2021
The Philippines	0.074	0.093	0.052	0.044	0.042
Table 7.B: India's RECPI with Philippines in South Korea					
Competitor	2017	2018	2019	2020	2021
The Philippines	0.065	0.054	0.015	0.002	0.001
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

[1] PHL-Korea FTA signing target set for June or July, Business World, March 30, 2023. <https://www.bworldonline.com/economy/2023/03/30/514141/phl-korea-fta-signing-target-set-for-june-or-july/>

In order to understand possible trade diversion that India may face in South Korea due to this FTA, a SMART analysis has been conducted. As shown in Table 8 below, India may expect trade diversion in some food items such as fruit, edible plants, shrimps and prawns, apparel, and chemical items. However, the magnitude of export loss may not be significant.

Table 8: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US$ Thousands)
200899	Fruit, edible plants	-44.859
030617	shrimps and prawns	-19.512
620520	Mens, boys shirts, of cotton, not knit	-11.831
382370	Industrial fatty alcohols	-3.851
611020	Apparel and clothing accessories knitted or crocheted	-3.747
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

This FTA may not harm India's to access the South Korean market. Agriculture sector of the Philippines will largely be benefitted due to this FTA.[2] Its export of banana to South Korea will avail zero tariffs in five years of the signing of this FTA, which is currently charged at 30 per cent, and processed pineapple exports to South Korea will be duty free in seven years.[3] Hence, India may face larger export loss in agriculture products to South Korea. Our findings from SMART analysis are also corroborating this. However, agriculture is not a major export of India to South Korea.

[2] Philippines and South Korea to Sign Free Trade Agreement, ASEAN Briefing, June 30, 2022, <https://www.aseanbriefing.com/news/philippines-and-south-korea-to-sign-free-trade-agreement/>

[3] PHL-Korea FTA signing target set for June or July, Business World, March 30, 2023. <https://www.bworldonline.com/economy/2023/03/30/514141/phl-korea-fta-signing-target-set-for-june-or-july/ >

3. Kenya and Russia to sign trade pact, President Ruto says

After receiving Russian Foreign Minister Sergei Lavrov in Nairobi on May 2023, President William Ruto said that Kenya and Russia will soon sign a comprehensive trade pact to enhance economic cooperation.

The agreement is expected to provide the necessary impetus to both countries' businesses, fostering increased trade exchanges and expanding investment opportunities. This trade pact will touch several bilateral, multilateral and regional matters aimed at strengthening ties between the two countries.

(*https://www.reuters.com/business/kenya-russia-sign-trade-pact-president-ruto-says-2023-05-29/*)

CUTS Comments

a) Impact on India's Exports to Russia

In 2021, the value of India's export to Russia was US$ 3.33bn, while that of Kenya was US$ 2.50bn. Among key export items of India and Kenya to Russia, only one agriculture item, black tea (fermented), is found to be common. Other major export items of India to Russia include veterinary medicinal preparations, telephones for cellular networks, frozen shrimps and prawns, parts and accessories of motor vehicles, coffee, rice, unglazed ceramic flags, mucilages and thickeners derived from beans or brans seed or guar seeds, nucleic acids. Kenya's key exports to the Russia include tea, coffee, fruits, vegetables, and plants.

India's FKI values over a period of five years, with Kenya as a competitor in Russia, are presented in Table 7.A. They indicate a very low similarity between their export items to Russia. RECPI values (Table 7.B) also indicate that India's average value-shares in common items are much larger than those of Kenya.

Table 9.A: India's FKI with Kenya in Russia					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
Kenya	0.068	0.064	0.041	0.040	0.028
Table 9.B: India's RECPI with Kenya in Russia					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
Kenya	0.036	0.029	0.008	0.018	0.011
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

Our findings from the SMART analysis indicate that India's exports of agriculture products to Russia will be affected due to this PTA. However, India may face a less significant export loss.

Table 10: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US$ Thousands)
071021	Shelled or unshelled peas	-8.98
240120	partly or wholly stemmed or stripped Tobacco	-5.352
120999	Fruits and spores seed	-4.698
120991	vegetable seeds	-3.471
121190	Plants and parts, pharmacy, perfume, insecticide	-1.994
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

India may face competitive pressure from Kenya in exports of its agriculture products to Russia. However, India's agriculture is competitive and has good potential to capture the large domestic market of Russia. On the other hand, Kenya is a good competitor of India in agriculture. This PTA may help Kenya to boost its agriculture exports to Russia.

b) Impact on India's Exports to Kenya

In 2021, India's exports to Kenya experienced a high growth of more than 37 per cent, while Kenya's exports grew at eight per cent. The value of India's exports to Kenya was US$ 2.5bn and that of Russia was US$ 0.22bn. Only one product, petroleum oil, is found to be common key export item of India and Russia to Kenya.

Other key export items of India to Kenya include semi-finished products of iron, motorcycles (including mopeds), rice, motor vehicles for transport, uncoated paper and paperboard, polymers of ethylene, bars and rods, hot-rolled, and flat-rolled products of iron. On the other hand, Russia's other key export items to Kenya include wheat and meslin, Semi-finished products of iron, mineral or chemical fertilizers, newsprint, unwrought aluminium, uncoated paper and paperboard, uncoated kraft paper and paperboard.

FKI values (see Table 11.A) indicate that there is less similarity between the export baskets of India and Russia in Kenya. RECPI values (see Table 11.B) further confirm that India's average value-share of common export items is relatively larger than that of Russia. Thus, India does not face any competitive pressure from Russia to access the market of Kenya.

Table 11.A: India's FKI with Russia in Kenya					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
Russia	0.036	0.046	0.044	0.034	0.038
Table 11.B: India's RECPI with Russia in Kenya					
Competitor	**2017**	**2018**	**2019**	**2020**	**2021**
Russia	0.008	0.010	0.007	0.005	0.009
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

India may not face any significant loss of its exports to Kenya. Our findings from SMART analysis indicate that there are very few products such as prepared explosives (except propellent powders), multiply paper and paperboard, kraft paper and paperboard, razors including safety razors & open blade razors, uncoated paper, which will face a small loss of exports.

Table 12: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US$ Thousands)
360200	Prepared explosives, except propellent powders	-76.4
481092	Multiply paper and paperboard	-45.84
480431	Kraft paper and paperboard	-6.14
821210	Razors including safety razors, open blade razors	-5.6
480257	Uncoated paper	-5.02
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

India's export performance is relatively better than that of Russia in the Kenyan market. Our findings from FKI indicate that Russia's export pattern to Kenya is different from that of India. Moreover, our findings from RECPI indicate that Russia's average value-share of common export items is below than that of India. As a result, our findings from SMART indicate no significant export loss that India may face in Kenya.

However, Russia is a large economy with a strong industrial base and plenty of natural resources. This PTA may help Russia to penetrate into the Kenyan market. India may face significant export loss in major industrial products and petroleum oil.

Annexure I

Finger-Kreinin 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.

This version of the FKI compares export patterns of two countries into a given market (for example, UK and Japan's exports to the world or to India, means FKI to a destination country). 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:

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

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_{i1j}/X_{i1j} is the share of product k in country i's total exports to the destination partner (j). x^k_{i2j}/X_{i2j} is the share of product k in the comparator country's (i_2) total exports.

Relative Export Competitive Pressure Index

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:

$$RECPI = \frac{\sum_k s^k_{i2j} x^k_{i_2 j}}{\sum_k s^k_{i_1 j} x^k_{i_1 j}}$$

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^k_{ij} is the value of country i's exports to country j of good k, and s^k_i 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 data.