

**CUTS Dossier on Preferential Trade Agreements
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1. Beijing expands Indian Ocean FTAs westward with Mauritius

China's free trade agreement (FTA) with Mauritius came into effect in January, increasing the Asian powerhouse's presence in the Indian Ocean, where its regional rival India has long dominated.

The deal was signed in October 2019 and is the first for Beijing with an African country. It is expected to pave the way for China into the large and lucrative African market. It coincides with the African Continental Free Trade Area (AfCFTA) launch, home to an estimated 1.3 billion consumers.

<https://asia.nikkei.com/Politics/International-relations/Beijing-expands-Indian-Ocean-FTAs-westward-with-Mauritius>

1.1 CUTS Comments

a) Impact on India's exports to China

In 2019, India's exports to China were US\$17.27bn. The top exports from India to China include petroleum for motor vehicles, iron ore, castor oil, polyethylene, and alloys of chromium and iron.

In the same year, Mauritius' exports to China were valued at just US\$34.4mn. The top exports include fish products, animal feed, cotton yarn and cotton garments, refined copper products and sugar and sugar confectionery in raw form.

Results of our FKI analysis are presented in Table 1.A. This FKI measures homogeneity in the export baskets between two competitor countries in a destination market. Here it reflects minimal commonality between Indian exports and Mauritius's exports in the Chinese market. The Relative Export Competitive Pressure Index (RECPI) values further corroborate this. RECPI measures India's competitive pressure from Mauritius in common products in the time of access to the Chinese market. Here it shows that RECPI values are very negligible.

Table 1: India's FKI and RECPI with Mauritius in China's Market

1.A. India's FKI with Mauritius in China's Market					
Competitor	2015	2016	2017	2018	2019
Mauritius	0.04	0.04	0.04	0.05	0.04
1.B India's RECPI with Mauritius in China's Market					
Competitor	2015	2016	2017	2018	2019
Mauritius	0.0001	0.0001	0.0001	0.0003	0.0003

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

To better understand the possible trade diversion, which India faces from Mauritius in the Chinese market, a SMART analysis has been carried out. The findings of this analysis are presented in Table 2 below. It is observed that exports of refined sugar and some textiles items are likely to be reduced by very less amount.

Table 2: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
170199	Refined sugar, in solid form, nes, pure sucrose	-37.479
520512	Cotton yarn greater than 85 percentage single uncombed 714 232 dtex,not ret	-15.008
610910	T shirts, singlets and other vests, of cotton, knit	-14.878
620520	Mens, boys shirts, of cotton, not knit	-13.782
620342	Mens, boys trousers and shorts, of cotton, not knit	-11.302
30342	Tunas(yellowfin) frozen, whole	-8.856

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

Food for Thought

Our analyses show that Mauritius is not a significant competitor for India for its access to China. SMART analysis shows exports of some products will be lowered in significantly less magnitude. There is no doubt that China remains India's top trading partner despite the countries' long sour dispute over the Himalayan border.¹ However, India has a huge trade deficit with China. Many more FTAs like this will widen that deficit further.

b) Impact on India's exports to Mauritius

In the year 2019, India's exports to Mauritius were valued at US\$779.4mn. The top traded products include light petroleum, automobiles fully and wholly milled rice and cotton yarn. Along similar lines, China's exports to Mauritius in 2019 were 804.5 million. Major products include alloyed aluminium materials, machines for the reception, conversion and transmission of voice, other colour reception apparatus for television, window wall air conditioners, and footwear and plywood items.

FKI values are presented in Table 3.A. It indicates that there is very little commonality between Indian and Chinese exports to Mauritius. Further, the RECPI values are close to the lower

¹ <https://economictimes.indiatimes.com/news/economy/foreign-trade/china-back-as-top-india-trade-partner-even-as-relations-sour/articleshow/81166575.cms?from=mdr>

extremity. Thus, it is evident that India faces no significant competition from China in its access to the Mauritius market.

Table 3: India’s FKI and RECPI with China in Mauritius Market

3.A India's FKI with China in Mauritius Market					
Competitor	2015	2016	2017	2018	2019
China	0.09	0.13	0.13	0.11	0.14
3.B India’s RECPI with China in Mauritius Market					
Competitor	2015	2016	2017	2018	2019
China	0.02	0.04	0.03	0.01	0.02
<i>SOURCE: TRADESIFT CALCULATIONS USING DATA FROM UN COMTRADE VIA WITS 6-DIGIT DATABASE</i>					

SMART analysis was carried out to assess the possible trade diversion that India might face from China in the Mauritius market. Our findings are depicted in Table 4. It is shown that some products like fittings for plastic tube, pipe or hose; cases of gun, musical instruments, camera; Table kitchen articles, and parts of iron or steel; Trays, dishes, plates, cups of paper and paperboard; and metal made office furniture will be affected slightly.

Table 4: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
391740	Fittings for plastic tube, pipe or hose	-45.46
420299	Gun, musical instrument, camera, etc cases, nes	-31.332
732399	Table kitchen articles, parts, of iron or steel, nes	-28.334
482369	Trays, dishes, plates, cups and the like, of paper paperboard	-27.666
940310	Office furniture, metal, nes	-25.996
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		

Food for Thought

India signed its Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with Mauritius on February 22, 2021. This is India’s first FTA with any African nation. It is expected that India-Mauritius CECPA will create an avenue for both exporters and businessmen to expand their commercial and investment in the African continent. India’s Foreign Minister S. Jaishankar said that the CECPA would provide a timely boost for the revival of our post-COVID economies and enable Indian investors to use Mauritius launch-pad

for business expansion into continental Africa, helping the prospect of Mauritius emerging as a ‘hub of Africa.’² However, if the economic superpower China will sign FTA with Mauritius, it will be tough for India to expand business in Mauritius and across the Africa continent.

2. Next round of UK, Australia trade talks set for February

The proposed trade deal with Australia will extend free mobile roaming for Britons travelling to Australia and open up the country’s market to UK telecommunications companies, the newspaper said, adding that the agreement will also slash tariffs on agricultural products going in both directions.

The UK is also asking Australia for tariffs to be dropped for some UK manufacturing sectors such as pottery makers, the report said.

<https://www.reuters.com/article/britain-trade-australia/update-1-britains-next-free-trade-deal-set-to-be-with-australia-city-am-idUSL1N2K22D7>

2.1 CUTS Comments

a) Impact on India’s exports to the UK

In 2019, India’s exports to the UK were US\$8.8bn. The top exports from India to the UK include turbojet engines, medicines, jewellery, aircraft parts and jewellery items.

Australia’s exports to the UK were valued at 10.5 billion in 2019. The major exported products are medicaments in dosage, aircraft parts, semi-manufactured forms of gold, accessories for electrical instruments, bituminous coal, and unsorted diamonds and grape wine.

Among the major export items, only one product, Medicaments in dosage and Aircraft parts, is common between India and Australia’s exports to the UK.

The FKI analysis for this particular FTA is shown in Table 5.A. The index values from 2015 to 2019 are not significant. It suggests a very little commonality between the two export baskets of India and Australia. Table 5.B shows the RECPI values over the recent past five years. Very low RECPI values ensure no major market loss will happen for Indian exporters in the UK market due to this FTA.

² <https://www.india-briefing.com/news/india-signs-free-trade-agreement-with-mauritius-first-with-an-african-country-21835.html/#:~:text=Mauritius%20will%20have%20preferential%20access%20to%20India%E2%80%99s%20market%2C,95%20sub-sectors%20of%20its%2011%20broad%20service%20sectors.>

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

5.A India's FKI with Australia in the UK Market					
Competitor	2015	2016	2017	2018	2019
Australia	0.11	0.05	0.07	0.10	0.04
5.B India's RECPI with Australia in UK's Market					
Competitor	2015	2016	2017	2018	2019
Australia	0.04	0.04	0.03	0.05	0.05
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

However, to pin down the specific products for which India's market loss will happen after implementing this FTA, a SMART analysis has been carried out. The findings of this analysis are presented in Table 6 below. It is observed that vegetables and mixture of vegetables, footwear, sheet film of propylene, women and girls' dresses of synthetic material, and iron exchangers will be the most affected items.

Table 6: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
200599	Vegetables and mixtures of vegetables	-48.121
640351	Footwear, soles, uppers of leather, over ankle, nes	-35.646
392020	Sheet film not cellular reinf polymers of propylene	-28.86
620443	Women's, girls dresses, synthetic fibres, not knit	-26.738
391400	Ion exchangers based on polymers in primary forms	-22.784
<i>Source: CUTS Calculations using data from UN Comtrade via WITS 6-digit database and using WITS SMART analysis tool</i>		

Food for Thought

From our analyses, we have assessed that Australia is not a major competitor of India for its access to the UK's market. However, India and UK should expedite their discussions on an FTA, as was recently highlighted during the 14th Joint Economic and Trade Committee meeting between the two countries.³ The focus should be on negotiating special tariff lines on products that are likely to get adversely impacted by other trade agreements of the UK. It has

³ <https://retail.economicstimes.indiatimes.com/news/industry/india-uk-affirm-commitment-towards-free-trade-agreement/77165998>

also been reported that Indian exporters are adversely impacted by red tape and government requirements.⁴ It is necessary to address such concerns to improve our export performance.

b) Impact on India’s exports to Australia

In 2019, India’s exports to Australia were valued at US\$2.9bn. In the same year, the UK’s exports to Singapore were five times larger than India. 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. While those of the UK’s to Australia include Automobiles, a spark-ignition engine of 1500 3000 cc, Medicaments in dosage, Printed reading books, alcohol drinks like whisky, Automobiles, diesel, and Animal feed preparations,

Only one product medicaments is found common between India and UK’s major exports items to Australia.

Our FKI analysis (see Table 7.A) over the last five years shows little similarity between India’s export basket and the UK to Australia. RECPI (see Table 7.B) also reflects that India faces little competition from the United Kingdom in Australia’s market.

Table 7: India’s FKI and RECPI with UK in Australia Market

7.A India’s FKI with the UK in Australia Market					
Competitor	2015	2016	2017	2018	2019
UK	0.18	0.21	0.18	0.21	0.24
7.B India’s RECPI with the UK in Australia Market					
Competitor	2015	2016	2017	2018	2019
UK	0.06	0.13	0.05	0.08	0.40
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

As a common fact, India’s exports to Australia will reduce due to favourable market access of the UK in this market. The magnitude of the loss will be significant in some specific products in which Indian products face some competition with the UK. Our SMART analysis has shown that communion wafers, rice paper, bakers wares; machines to sort, screen, wash stone, ores and minerals; carboxylic acids; jewellery and parts of precious metal; and machines to crush or grind stone, ores and minerals are those products will be affected the most.

⁴ <https://uk.reuters.com/article/uk-india-exporters/indias-exporters-rue-new-red-tape-requirements-from-government-idUKKCN24POVY>

Table 8: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
190590	Communion wafers, rice paper, bakers wares nes	-93.655
847410	Machines to sort, screen, wash stone, ores and minerals	-84.79
291899	Carboxylic acids	-67.084
711319	Jewellery and parts of precious metal except silver	-64.451
847420	Machines to crush or grind stone, ores and minerals	-62.17

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

Food for Thought

Australia is a big market for Indian exporters. Both the parties India and Australia have their advantage in their respective markets. They have agreed to sign an FTA. However, the proposed FTA talk was suspended in 2015 due to some internal politics of both countries⁵. Today, tensions with China facilitate Australia to make a trade deal with India. That indication has found in a Comprehensive Strategic Partnership at the Leaders' Virtual Summit in June 2020.⁶ Both the parties have started to exchange their offer list.

Not only India, but Australia is also very much keen to sign FTA with almost all key trading partners. Hence, it tries to conclude an FTA with the UK. Indian negotiators have to keep track of all such FTA talks. They have to raise their voice to include all such products which are not in Australia's offer list to India but others.

3. Biden, Uhuru talk guarantees FTA negotiations on course

President Uhuru Kenyatta has expressed confidence that the ongoing negotiations for the Kenya-US FTA will strengthen bilateral ties.

In a statement released after the first telephone conversation with President Joe Biden on Thursday evening, the State House noted that Kenya was the fourth largest trading partner of the US in Africa. Biden had re-affirmed commitment to enhancing trade relations.

<https://www.standardmedia.co.ke/nairobi/article/2001404730/uhuru-and-biden-optimistic-on-ongoing-fta-talks>)

⁵ <https://www.eastasiaforum.org/2021/03/08/can-an-australia-india-fta-succeed-where-rcep-failed/>

⁶ <https://www.eastasiaforum.org/2021/01/25/prospects-for-an-australia-india-trade-deal/>

3.1 CUTS Comments

Food for Thought

While little similarity exists in Indian and Kenyan exports to the US, this FTA might adversely affect exports of tea from India to the US. It has been reported that rising costs, political unrest, and COVID-19 have badly hit the Indian tea industry and reduced its international competitiveness.⁸ India will need to undertake an in-depth review to better understand stakeholders' concerns in the tea sector and implement reforms, particularly in the area of labour⁹ and logistics.¹⁰ In addition, it may need to negotiate special tariff lines with the US.¹¹

b) Impact on Indian Exports to Kenya

Both India and the US export medicaments products (HS code 380891) in large, albeit different quantities, to Kenya. Other than this, key export items of India include industrial products motor cycles, semi-finished products of iron or non-alloy steels or zinc, polyethylene paper and paperboard, petroleum oil, parts of agriculture, forestry, and beekeeping machinery, semi-finished or wholly milled rice. Key export items from the US to Kenya include vinyl chloride, kraft liner, electronic integrated circuits, machines for the reception, conversion, and transmission, digital processing unit, worn clothing and other worn textile articles, wheat and meslin, grain sorghum.

It is evident from the FKI analysis that limited similarity exists among India's and the US's export baskets to Kenya (see Table 8.A). Naturally, the RECPI analysis suggests limited competitive pressure exerted by both exporting countries on each other for their exports to Kenya.

Table 9: India's FKI and RECPI with Kenya in the US Market

9.A India's FKI with the USA in Kenya Market					
Competitor	2015	2016	2017	2018	2019
USA	0.09	0.13	0.13	0.16	0.15
9.B India's RECPI with the USA in Kenya Market					
Competitor	2015	2016	2017	2018	2019
USA	0.0006	0.0070	0.0032	0.0050	0.0065
<i>Source: TradeSift calculations using data from UN Comtrade via WITS 6-digit database</i>					

⁸ https://www.business-standard.com/article/companies/rising-costs-political-unrest-covid-19-triple-whammy-for-tea-industry-120042101880_1.html

⁹ <https://stir-tea-coffee.com/features/india-tea-industry-struggles-to-flourish/>

¹⁰ <https://economictimes.indiatimes.com/news/economy/foreign-trade/indian-tea-trade-gets-export-enquiries-from-global-markets-but-worried-over-supply/articleshow/74995369.cms>

¹¹ <https://www.thehindubusinessline.com/news/new-challenges-and-opportunities-to-define-india-us-ties-in-the-post-covid-19-world/article31433244.ece/amp/>

In the existing trade arrangement, Kenya is already availing duty concession from the US under Africa Growth Opportunity Act (AGOA), and Generalised System of Preferences (GSP). These preferential arrangements are unidirectional. The proposed FTA will allow duty-free market access to US products in Kenya. Hence, it is likely that Indian products will be highly affected. And that is reflected in our SMART analysis. As indicated in Table 10, SMART analysis suggests that India's exports to Kenya of worn clothing and other worn textile articles; paper; bolts screws with without nut washer of iron and steel; and Self-adhesive plates, sheets, film, plastic are likely to be most adversely impacted.

Table 10: Trade Diversion likely to be experienced by India

Product Code	Description	Trade Diversion (US\$ thousands)
630900	Worn clothing and other worn articles	-368.43
480255	Paper	-155.76
731815	Bolts screws with without nut washer of iron and steel	-150.33
391990	Self-adhesive plates, sheets, film, plastic	-110.73

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

Food for Thought

In order to mitigate the adverse impacts of this FTA on Indian textile exports to Kenya, India will need to deepen its trade relationship with Kenya. While some efforts have already been made on these lines,¹² it may be useful to conduct a sector-specific discussion. India will also need to implement domestic reforms to ensure its textile industry remains globally competitive. This will involve releasing pending dues by the government on time¹³ and ensuring raw materials at internationally competitive prices.

¹² <https://pib.gov.in/newsite/PrintRelease.aspx?relid=196218>

¹³ <https://www.news18.com/news/business/home-textile-exporters-demand-govt-to-release-pending-dues-since-last-7-months-2338189.html>

Annexure I

FK 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 the export patterns of two countries into a given market (for example, UK and Japan's exports to the world or 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 the overall similarity of exports of two countries and, therefore, their degree of competitiveness/complementarity either with respect to particular markets or their trade with the rest of the 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 '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

RECPI is about exploring the 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 how 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 that aggregates information from across various sectors, subsectors, or products. Hence, it can be calculated either for all trade or for particular sectors - in all cases based on more detailed sub-sectoral or product level detail.