CUTS Dossier on Preferential Trade Agreements and India

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1. Trade deal with UAE moves step closer (UAE-Australia CEPA)

Trade Minister of Australia Dan Tehan recently confirmed that both countries had agreed to undertake "preparatory discussions and domestic consultations" with a view to starting formal trade negotiations.

"The UAE is Australia's gateway to the Middle East and presents an opportunity for greater trade diversification," Mr Tehan said. In 2020, two-way trade between Australia and the UAE was worth $6.8 billion and two-way investment was $16 billion.

Australia has more than 300 key businesses operating in the UAE, including in building, construction, financial services, agricultural supplies and training services and a CEPA would create more opportunities for Australian businesses and workers.

https://www.mandurahmail.com.au/story/7663086/trade-deal-with-uae-moves-step-closer/?cs=12

1.1 CUTS Comments

a) Impact on India's Exports to Australia

In 2020, India's exports to Australia were US$ 3.47 billion while UAE's (United Arab Emirates) exports to Australia stood at US$ 5.98 billion. Only four key export products, natural or cultured pearls, precious or semi-precious stones, electrical machinery and equipment, articles of iron and steel, are found to be common among their export baskets to Australia.

Other key exports of India to Australia are pharmaceutical products, mineral fuels and mineral oils, natural or cultured pearls, precious or semi-precious stones and metals. Similarly for UAE to Australia are copper wires, articles of jewelry, pipes and tubes of iron or steel, parts and accessories for tractors and motor vehicles, etc.

In order to understand the overall impact on India's exports to Australia, 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 five years in Australia market while UAE as a competitor.

As shown in Table 1.A, FKI values are more or less same over the years, and very less similarity is found between export baskets of India and its competitor UAE to Australia. The highest value of this Index was 0.24 in the year 2017, which is very low.

The RECPI analysis compares the degree of competitiveness between India and its competitor country (UAE) in exporting common products to a particular destination market, Australia in this case. Table 1.B below presents findings of RECPI analysis of India in Australia market with UAE as a competitor.

As shown in Table 1.B, RECPI values of past five years were very low, kept in the range of 0.01to 0.04. It indicates that India has not faced any significant competitive pressure from UAE in access to Australia market.

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

Table 1.A: India's FKI with UAE in Australian Market					
Competitor	2016	2017	2018	2019	2020
UAE	0.12	0.24	0.13	0.17	0.17
Table 1.B: India's RECPI with UAE in Australian Market					
Competitor	2016	2017	2018	2019	2020
UAE	0.01	0.04	0.01	0.04	0.02
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 UAE in the Australian market, a SMART analysis has been carried out. Most affected eight products are listed in Table 2 below. It has been observed that Indian jewellery, textile, iron and steel, and electronic products will be affected most.

Table 2: Trade Diversion likely to be Experienced by India

Product Code	**Description**	**Trade Diversion (US$ thousands)**
711319	Jewellery of precious metal, whether or not plated	-260.16
570330	Carpets and Other Floor covering Textiles	-43.04
730630	Iron or Non-Alloy Steel	-23.81
540720	Woven Fabrics	-14.78
854460	Electric Conductors	-14.58
700510	Non-wired Glass	-14.04
722220	Bars and Rods	-12.23
850720	Lead Acid Accumulators	-10.58
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

It has been observed from above analysis India's exports to Australia as well as UAE will not be majorly affected due to this FTA. India has an FTA with the UAE. In the first week of April, 2022, India and Australia have signed an Economic Cooperation and Trade Agreement. Bilateral trade in goods and services for both countries is expected to rise from the existing US$ 27.5 billion to US$ 45 billion over the next five years. With this increase in trade, the trade deal will further contribute to supply chain resilience and will create about a million new jobs in India.

b) Impact on India's Exports to UAE

In 2020, while India's exports to the UAE were US$ 17.95 billion, while Australia's exports to that market were just about US$ 1.69 billion. Among the key export items, both India and Australia export mineral fuels and mineral oils, natural or cultured pearls, precious or semi-precious stones and rice to the UAE.

India's major exports to the UAE include mineral fuels and oils, jewelry, mobiles and telephones, diamond, semi or wholly milled rice. Australia's key exports to the UAE comprise aluminum oxide, fresh or chilled bovine meat, parts and accessories of tractors and other motor vehicles, barley, etc. FKI analysis in Table 2.A shows that there is limited similarity in product baskets of India and Australia in their exports to UAE. RECPI values suggest negligible competitiveness between India and Australia in UAE's market (see Table 3.B).

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

Table 3.A: India's FKI with Australia in UAE Market					
Competitor	2016	2017	2018	2019	2020
Australia	0.08	0.09	0.09	0.14	0.15
Table 3.B: India's RECPI with Australia in UAE Market					
Competitor	2016	2017	2018	2019	2020
Australia	0.001	0.004	0.002	0.003	0.007
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

As shown in Table 4, a significant trade diversion can be expected from the seven major products. Exports of aluminum oxide may be reduced by US$ 9 million, and that of flat-rolled products of iron and non-alloy steel will be reduced by US$ 1 million. Exports of pumice stone and diamonds will also be reduced significantly.

Table 4: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US$ thousands)
281820	Aluminium oxide	-9196.88
720839	Flat-rolled Products of Iron or Non-Alloy Steel	-1049.77
251320	Pumice Stones	-752.49
710239	Diamonds	-736.24
71320	Chickpeas	-268.72
720838	Flat-rolled Products of Iron or Non-Alloy Steel	-113.23
20442	Meat of Sheep or Goats	-106.63
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

UAE is third largest trading partner of India. In 2020, India's exports to the UAE were nearly seventeen (17) times larger than Australia's exports. It has also been observed from our analysis that there is no significant commonality between the exports of India and Australia to the UAE.

Our SMART analysis has identified some major affected products. Recently, India has signed a Comprehensive Economic Partnership Agreement (CEPA) with the UAE. This Agreement is going to cover almost 90 percent of India's trade with that country. It will help Indian exporters from larger market access loss in these export items. Several sectors of India such as gems and jewelry, leather, plastic products, agriculture products, medical devices, pharmaceutical products, and automobiles will be benefitted from this Agreement.

2. Dhaka, Tokyo look for free trade agreement

Japanese ambassador to Dhaka ITO Naoki said that Tokyo was considering a joint study on framing the FTA with Bangladesh. Bangladesh and Japan would explore scopes for signing a free trade agreement for boosting bilateral trade, investment and economic cooperation. Planning minister MA Mannan told a dialogue that Japan would be a strong contender for signing a free trade agreement with Bangladesh and the bilateral trade relations would be smoother if the agreement is signed.

https://www.newagebd.net/article/165634/dhaka-tokyo-look-for-free-trade-agreement

2.1 CUTS Comments

a) Impact on India's Exports to Bangladesh

Bangladesh is India's fifth largest export destination of India. In 2020, India's merchandise exports to Bangladesh were US$ 7.9 billion. Japan is the fifth largest importers of Bangladesh.[1] In 2020, Japan's exports to Bangladesh were US$ 2.3 billion. Only four products, mineral fuels and mineral oils, machinery and mechanical appliances, motor cars, and other type of motor vehicles, are found to be common in their export baskets to Bangladesh.

Other key exports from India to Bangladesh are cotton, cotton yarn, electrical energy, maize, mineral oils, parts and accessories of motorcycles. Key exports from Japan to Bangladesh are flat-rolled products of iron or steel, waste or scrap of iron or steel, motor cars and motor vehicles.

India's FKI values over a period of last five years while Japan as a competitor in Bangladesh market are listed in below Table 5.A. These values were lie in between the range of 0.11 to 0.15. It represents very less similarity between India and Japan's export baskets. This is further confirmed by the values of RECPI (see Table 5.B), as India faces limited competition from Japan in the Bangladesh market.

Table 5: India's FKI and RECPI with Japan in the Bangladesh Market

Table 5.A: India's FKI with Japan in Bangladesh Market					
Competitor	2016	2017	2018	2019	2020
Japan	0.15	0.14	0.13	0.13	0.11
Table 5.B: India's RECPI with Japan in Bangladesh Market					
Competitor	2016	2017	2018	2019	2020
Japan	0.03	0.02	0.01	0.01	0.02
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

Our SMART analysis reveals that some specific products such as big diesel-powered trucks, flat-rolled products of iron or non-alloy steel, and chassis fitted with engines are most affected products. Exports of those products will be reduced by more than US$ 1 million. Other most affected products include standard wires, small diesel-powered trucks, and electrical insulators.

[1] Bangladesh Bureau of Statistics (BBS) (2021), Foreign Trade Statistics of Bangladesh 2019-20, National Accounting Wing, Statistics and Information Division, Ministry of Planning, Government of Bangladesh

Table 6: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US$ thousands)
870422	Big diesel-powered trucks (capacity more than 5 tonnes)	-2410.77
720839	Flat-rolled Products of Iron or Non-Alloy Steel	-1498.53
870600	Chassis fitted with Engines	-1334.59
761410	Stranded Wires	-942.234
870421	Small diesel-powered trucks	-710.495
854620	Electrical Insulators	-584.047
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

India is in an advantageous position in Bangladesh market due to their geographical proximity and both the countries have cultural similarity. However, Japan is an advanced economy. Japanese technology is much superior and competitive as compared to India. It has been realised from the FKI values that nature of exports of India and Japan to Bangladesh are not similar. India mostly exports agriculture, and low and medium skill-based manufacturing commodities to Bangladesh.

Japan mostly exports high-skilled heavy engineering and electronics items to Bangladesh.

However, one rising sector of India, automobile industry, will be highly negatively impacted. India's automobile has high demand in Bangladesh market. This FTA can significantly reduce India's automobile market share.

b) Impact on India's Exports to Japan

In 2020, Bangladesh's exports to Japan ((US$ 1.3 billion) were nearly half of India's exports to Japan (US$ 2.6 billion). Among key export items, only Fish and Crustaceans are found common in their export baskets to Japan.

Other largely traded export items of India to Japan include diamonds, mineral fuels and mineral oils, frozen shrimps and prawns, iron ore and concentrates and herbicides. Similarly for Bangladesh, they included apparel products under chapter 61 (articles of apparel and clothing accessories knitted or crocheted) and 62 (articles of apparel and clothing accessories, not knitted or crocheted). Under these two HS chapters, men's or boy's trousers, t-shirts and other vests of cotton, jerseys, pullovers and waistcoats are in high demand in Japan. Other than textiles, footwear of rubber, plastics and leather also have high demand in Japan.

Checking homogeneity across export baskets through FKI Analysis (see Table 7.A) shows that there is very less commonality in the category of products India and its competitor Bangladesh exports to Japan. RECPI values (see Table 7.B) further indicate India did not face any significant competitive pressure from Bangladesh in these few common export items.

Table 7: India's FKI and RECPI with Bangladesh in the Japan Market

Table 7.A: India's FKI with Bangladesh in Japan Market					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.08	0.07	0.06	0.07	0.07
Table 7.B: India's RECPI with Bangladesh in Japan Market					
Competitor	2016	2017	2018	2019	2020
Bangladesh	0.20	0.19	0.10	0.12	0.14
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

A small number of products of India's export interests will be negatively affected. Also, there is very minimal market loss for India in Japan. Findings from our SMART indicate that there will be market loss for textiles, apparels, and footwear items.

Table 8: Trade Diversion likely to be Experienced by India

Product Code	**Description**	**Trade Diversion (US$ thousands)**
420329	Gloves (of Apparel)	-75.347
420310	Articles of Apparels	-0.91
640610	Parts of Footwear	-0.15
640299	Footwear with outer soles	-0.07
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

India should be worried about only one sector, textiles. Bangladesh's textile industry outperformed other countries in South Asia. Bangladesh became a success by build a strong production network in textiles. Japan is a dominant player in textile value chains network in Asia.

India already has a Comprehensive Economic Partnership Agreement with Japan. However, duty-free and preferential market access are not the only solution. Indian textiles industry needs to become more competitive to compete with Bangladesh. There is immense scope for India in this sector to make a strong production network with one of the Asian giants, which is Japan.

3. China – Sri Lanka FTA to be fast-tracked

China has signaled the desire to re-start a stalled Free Trade Agreement talks with Sri Lanka to boost exports and come out of an economic crisis, during a visit of Foreign Minister Wang Yi, Chinese Embassy sources said.

Free trade talks between China and Sri Lanka hit a hurdle in 2018 under the last administration because Beijing disagreed with Colombo's demand for a review of the deal after 10 years according to officials familiar with the issue.

Officials of the previous government had said that China wanted zero tariffs on 90 percent of goods the two countries sold to each other as soon as an agreement was signed while Sri Lanka wanted it to start with zero tariffs on only half of the products concerned and expand gradually over 20 years.

https://lankanewsweb.net/archives/6457/sri-lanka-to-fast-track-free-trade-agreement-fta-with-china-soon/

3.1 CUTS Comments

a) Impact on India's Exports to Sri Lanka

In 2020, India's exports to Sri Lanka were valued at US$ 3.2 billion, while China's exports to Sri Lanka were US$ 3.8 billion. Among key export items, only three categories of products such as iron and steel products, mechanical appliances, and knitted or crocheted fabrics are found to be common that both India and China exporting to Sri Lanka.

Key export items of India to Sri Lanka include mineral oils, cane or beet sugar, tankers, knitted or crocheted fabrics. Similarly, those of China to Sri Lanka included mineral oils, knitted and crocheted fabrics, mobiles and telephones, scooters, tricycles, etc. As in Table 9.A, FKI values are in the range of 0.2 to 0.3. It indicates that there were a moderate product homogeneity lies across India and China's exports to Sri Lanka.

In the year 2018, RECPI of India was more than one (1.23). It reflects China had higher exports than India in common products. In the past two consecutive years, RECPI values were reached to below one again and they were in decreasing momentum. China has experienced supply chain disruption very badly due to COVID19 in these two years. Hence, it may not be right to infer by looking at the RECPI values of these COVID affected years.

Table 9: India's FKI and RECPI with China in the Sri Lankan Market

Table 9.A: India's FKI with China in Sri Lanka Market					
Competitor	2016	2017	2018	2019	2020
China	0.28	0.26	0.27	0.27	0.24
Table 9.B: India's RECPI with China in Sri Lanka Market					
Competitor	2016	2017	2018	2019	2020
China	0.76	0.69	1.23	0.49	0.23
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

As shown in Table 10, aluminium, granite, some textile products, optical fiber cables, and heterocyclic compounds are most affected products of India in Sri Lanka's market. Magnitudes of loss are not very high.

Table 10: Trade Diversion likely to be Experienced by India

Product Code	**Description**	**Trade Diversion (US$ thousands)**
760110	Aluminium	-193.506
680293	Granite	-62.569
420222	Handbags of Plastics/T4extile Materials	-50.556
620640	Blouses or Shirts of Manmade Fibres	-43.166
620443	Dresses of Synthetic Fibres	-37.845
854470	Optical Fibre Cables	-33.303
293399	Heterocyclic Compounds	-33.088
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

For a long period, India is Sri Lanka's largest importer. Now China has taken that place even if China has no FTA with Sri Lanka yet. Wherein it is more than two decades that India has an FTA with Sri Lanka. Sri Lanka imports mostly raw materials for textiles and apparels from China. The availability of textile raw materials at very low price from Chinese suppliers is expected to the major reason for Sri Lanka to import these goods from China, instead of from India or Pakistan, which previously used to be the major importers of textile materials to Sri Lanka.[2]

[2] https://thediplomat.com/2021/05/the-economics-of-the-china-india-sri-lanka-triangle/

Bilateral relations between Sri Lanka and China have been strengthened. It is growing through three avenues: trade; investment; and loans for infrastructure projects. At present, Sri Lanka's economic condition is very challenging due to increases in both fiscal and current account deficit. This is an opportunity for India to further expand its trade and economic ties with Sri Lanka, including by expanding the scope of its FTA with that country through investments and services.

b) Impact on India's Exports to China

China is India's second largest export destination. In 2020, India's exports to China were at US$ 19 billion. China's imports from Sri Lanka were very small valued at US$ 252 million in the same year.

The major export items of India to China include agglomerated and non-agglomerated iron ore and concentrates, petroleum oils and cyclic hydrocarbons. China's key imports from Sri Lanka included fermented tea, vegetable textile fibres, activated carbons and readymade garments.

FKI values (see in Table 11.A) indicate very poor similarity in exports of India and Sri Lanka to China. As expected, and it is also supported by low RECPI values (see Table 11.B) that India has not faced any competitive pressure from Sri Lanka in access to Chinese market.

Table 11: India's FKI and RECPI with Sri Lanka in the Chinese Market

Table 11.A: India's FKI with Sri Lanka in Chinese Market					
Competitor	2016	2017	2018	2019	2020
Sri Lanka	0.05	0.05	0.04	0.04	0.05
Table11.B: India's RECPI with Sri Lanka in Chinese Market					
Competitor	2016	2017	2018	2019	2020
Sri Lanka	0.002	0.001	0.000	0.001	0.000
Source: CUTS calculations using TradeSift software and data from UN Comtrade via WITS 6-digit database					

As in Table 12 below, Indian black tea will be most affected product in Chinese market. Its exports may reduce by more than US$ 1 million. Among other affected products, vegetable textile fibres, some vegetable products (coconut shell, etc.).

Table 12: Trade Diversion likely to be Experienced by India

Product Code	Description	Trade Diversion (US$ thousands)
090240	Black Tea	-1388.57
530500	Vegetable Textile Fibres	-291.09
140490	Vegetable Products	-232.37
380210	Activated Carbon	-64.70
610821	Briefs and Panties of Cotton	-15.26
420310	Articles of Apparel	-15.21
620342	Trousers and Shorts of Cotton for Men's and Boys	-10.29
Source: CUTS calculations using WITS SMART analysis tool and data from UN COMTRADE via WITS 6-digit database		

Food for Thought

It may not be possible for Sri Lanka, as a small economy, to capture India's market in China. However, there may be some sectors or products that can be negatively affected as identified by our SMART analysis. Most specifically, Indian exports of black tea and some other agriculture products, and products of textile and garments can be affected.

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.

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:

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

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.

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:

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

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_{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.